

Forsikringselskabet Privatsikring A/S

Solvency and Financial Condition Report (SFCR)

2020

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Introduction

Forsikringselskabet Privatsikring A/S (the 'Company') is a limited company incorporated and domiciled in Denmark. The Company conducts a non-life insurance business in Denmark through partnerships with local banks. The Company is wholly owned by Codan Forsikring A/S, which is one of the largest non-life insurance providers in Scandinavia. The Company is part of RSA Insurance Group plc, one of the world's leading insurance groups with the benefits that naturally follow.

This document sets out the solvency and financial condition of the Company at 31 December 2020, as required by Solvency II Regulations.

Those regulations prescribe the structure of this document and indicate the nature of the information that must be reported under a series of headings and sub-headings. Where information is not applicable to the Company, for completeness the report still contains the heading, but with an appropriate note.

Figures for the Company represent the position of the Company as a legal entity. The Company is a subsidiary of Codan Forsikring A/S whose ultimate parent company is RSA Insurance Group plc, which prepares a Group consolidated Solvency and Financial Condition Report in accordance with applicable law.

The Company has entered into an outsourcing agreement of all its operations to Codan Forsikring A/S ("Codan"). There are no other outsourcing arrangements in place. The outsourcing agreement is supplemented with individual SLA's for each function/service outsourced in order to have a clear ownership on who of the one hand manages the delivery from Codan Forsikring and on the other hand makes the order and controls the delivery as such and reducing the risk of conflicts of interest. For further details of these outsourcing arrangements and how they are overseen by the Board of Directors of the Company, refer to section B.7.

Annual Report and Accounts

This document makes reference to the Company's 2020 Annual Report which can be accessed from the Company's web site at <https://www.privatsikring.dk/om-privatsikring/finansiel-information>. The Annual Report is prepared in accordance with the statutory accounting rules and the management accounting practices of the Company, whereas information in this Solvency and Financial Condition Report is governed by the Solvency II rules. Important differences include valuation methodologies for assets, technical provisions and other liabilities, definitions of asset and liability categories, definitions of underwriting lines of business and the presentation of certain information by geographic region versus legal entity. Therefore, the numbers in this Solvency and Financial Condition Report will not always correspond to the numbers in the Annual Report.

Transitional measures

As a general insurance business, the Company does not place any reliance on transitional measures for technical provisions as referred to in Articles 308c and 308d of Directive 2009/138/EC, or on the matching adjustment measure as referred to in Articles 77b and 77d of Directive 2009/138/EC. Consequently, there will be no information regarding these measures in this report.

Summary

This document sets out the solvency and financial condition of the Company as of 31 December 2020, as required by Solvency II regulations. The Company's solvency and financial condition as of 31 December 2020 is made as required by the regulation.

A summary of the material changes during the period are found below for each of the SFCR parts.

Business and performance

Underwriting result

The underwriting result for 2020 was DKK 152m driven by improvement in claims ratio in combination with continued focus on cost management and top line growth.

Combined ratio was 82.3, which is in line with expectations and lower than last year's combined ratio of 87.3. The lower combined ratio this year was driven by increase in premium combined with lower operating costs and lower claims ratio.

Investment result

The Company's investments are primarily made in bonds. The total investment return (in DK GAAP) was DKK -2.8m for 2020 against DKK -4.7m for 2019. The investment return before interest and exchange rate adjustments of technical provisions (Solvency II basis) was DKK -2.6m in 2020, against DKK -3.5m in 2019. For further details of the Company's investments performance, see section A.3 and the Company's Annual Report.

Operating Profit

Operating Profit for 2020 was DKK 116m against DKK 77m for 2019. The increase in operating profit for the year is primarily driven by the positive underwriting result.

For further details of the Company's business and performance, see section A of the report.

Capital management

Capital Position

| Solvency II position | Requirement (SCR) (unaudited) DKKm | Eligible Own Funds DKKm | Surplus DKKm | Coverage % |
|-----------------------------|---|--|-------------------------|-----------------------|
| 31 December 2020 | 215,415 | 658,644 | 443,229 | 306% |
| 31 December 2019 | 191,977 | 554,414 | 362,436 | 289% |

The Company's solvency coverage (eligible own funds divided by Solvency Capital Requirement (SCR)) increased to 306%.

The key drivers of the increase in the coverage ratio were increase in own funds from profit generation over the year not entirely offset by an increase to the SCR.

See section E of the report for further details regarding the Company's capital position, capital requirements and own funds items.

Risk Profile Changes in the Year

The SCR has increased from year-end 2019 to year-end 2020 driven by a change in the allowance of loss absorbing capacity of deferred taxes within the SCR. The increase to the SCR is primarily due to improved premium provision modelling, but this has been offset by additional insurance exposure projected in 2021 from the partnership with Nykredit, Lokale Pengeinstitutter and Spar Nord.

See section C of the report for further details regarding the Company's risk profile.

Capital activity

No material capital activity has affected the Company's basic own funds during 2020.

Other Material Events

As of January 1, 2021, the UK is no longer a member of the EU. This is important for Privatsikring because the company's ultimate parent company RSA is domiciled in England.

The internal model used to calculate the Company's SCR was approved on RSA Group level. For the Company to continue to use the internal model post the end of the Brexit transition period 1 January 2021, the Company would be required to submit an application for usage of an internal model. The Company has chosen not to do so and therefore, from 1 January 2021, the Company has reverted to use the standard formula for calculation of the SCR.

In the spring of 2020, Europe was affected by a rapid spread of the Coronavirus (Covid-19), which has affected the whole of 2020.

The main impacts on the business operations and asset and liability are driven by the measures taken to mitigate the impact of the outbreak.

Many have worked from home for large periods of 2020, which has led to a decrease in cars on the roads and thus also a decrease in motor claims. There has also been a decrease in the number of burglaries in 2020, as a result of Danes being more at home than usual. However, private insurance has also experienced a negative impact on the Corona outbreak in relation to insurance operations in terms of wage insurance, where there has been an increase in claims costs due to the increase in unemployment that has been an economic consequence of the prolonged shutdown of society.

As Privatsikring is part of the RSA Group, Privatsikring has the advantage that the Group has carried out a well-coordinated operational risk assessment and monitoring of the Coronavirus's spread at an early stage, as well as taken measures to reduce risks and prevent major operational disruptions.

Financial markets are affected by the spread of the Coronavirus and volatility has increased while returns have decreased. Holmia Liv has a high-quality investment portfolio with good matching of assets and liabilities. Market movements have therefore not been significant during the year.

In November 2020, a consortium consisting of Canadian Intact Insurance and Danish Tryg Forsikring submitted an offer to acquire all shares in RSA with a view to a subsequent delisting and division of the various graphical activities. At an extraordinary general meeting on 18 January 2021, 99.34% of RSA's shareholders voted in favor of selling RSA's shares to Intact and Tryg. However, sales remain dependent on competition authorities and insurance regulatory approvals in the affected countries. If these approvals are obtained, the sale is expected to be completed during second quarter 2021.

A. Business and Performance

In this section

A.1 Business

A.2 Underwriting performance

A.3 Investment performance

A.4 Performance of other activities

A.5 Any other information

Performance figures in Section A have been prepared in accordance with the same accounting standards used for the Group's Annual Report and Accounts i.e. International Financial Reporting Standards (IFRS) as endorsed by the EU.

A.1 Business

A.1.1 Company name & legal form

This report covers Forsikringselskabet Privatsikring A/S (the 'Company'), a private (unlisted) limited company incorporated in Denmark.

A.1.2 Supervisory authority

The Danish Financial Supervisory Authority ('Danish FSA') is the supervisor. Contact details are:

Århusgade 110
DK-2100 Copenhagen Ø

Telephone: +45 3355 8282

Website: <https://www.finanstilsynet.dk/>

A.1.3 External auditor

The external auditor of the Company is:

KPMG
Statsautoriseret Revisionspartnerselskab
Dampfærgevej 28
DK-2100 Copenhagen Ø

Telephone: +45 7070 7760

A.1.4 Holders of qualifying holdings

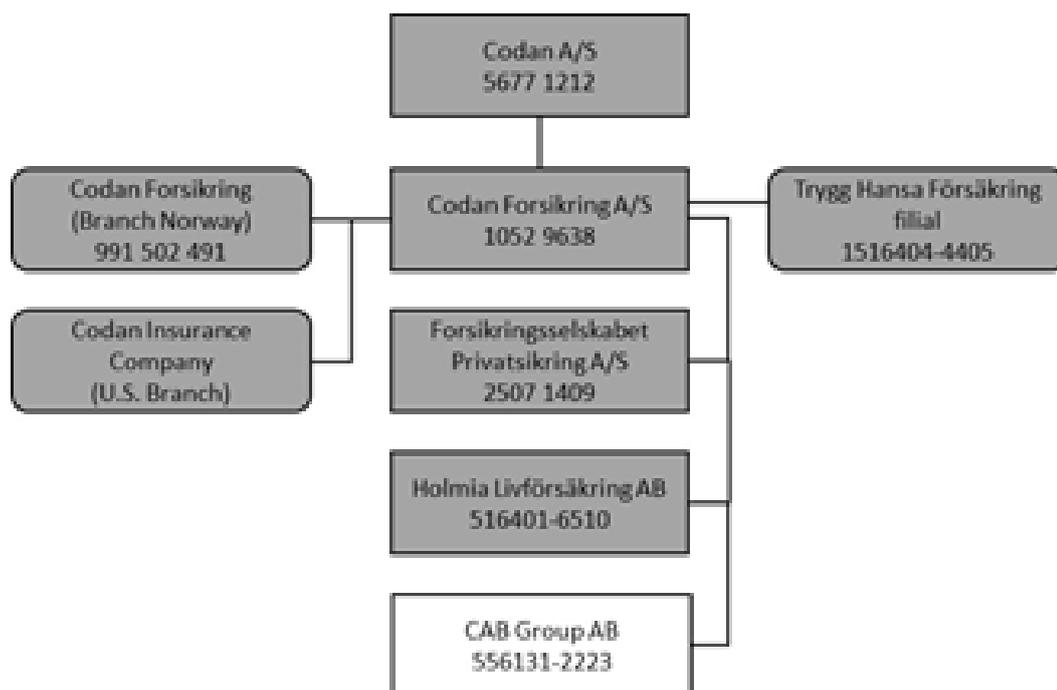
Codan Forsikring A/S, Frederiksberg, owns 100% of the shares in Forsikringselskabet Privatsikring A/S.

A.1.5 Position within the Group legal structure

RSA Insurance Group plc is the ultimate parent company of the Group and is listed on the London Stock Exchange.

A.1.5.1 Group structure

The insurance company, Codan Forsikring A/S owns 100% of the shares in the Company and is owned by RSA Insurance Group plc via intermediary company. Details of the legal structure, as at the end of the reporting period are shown below.



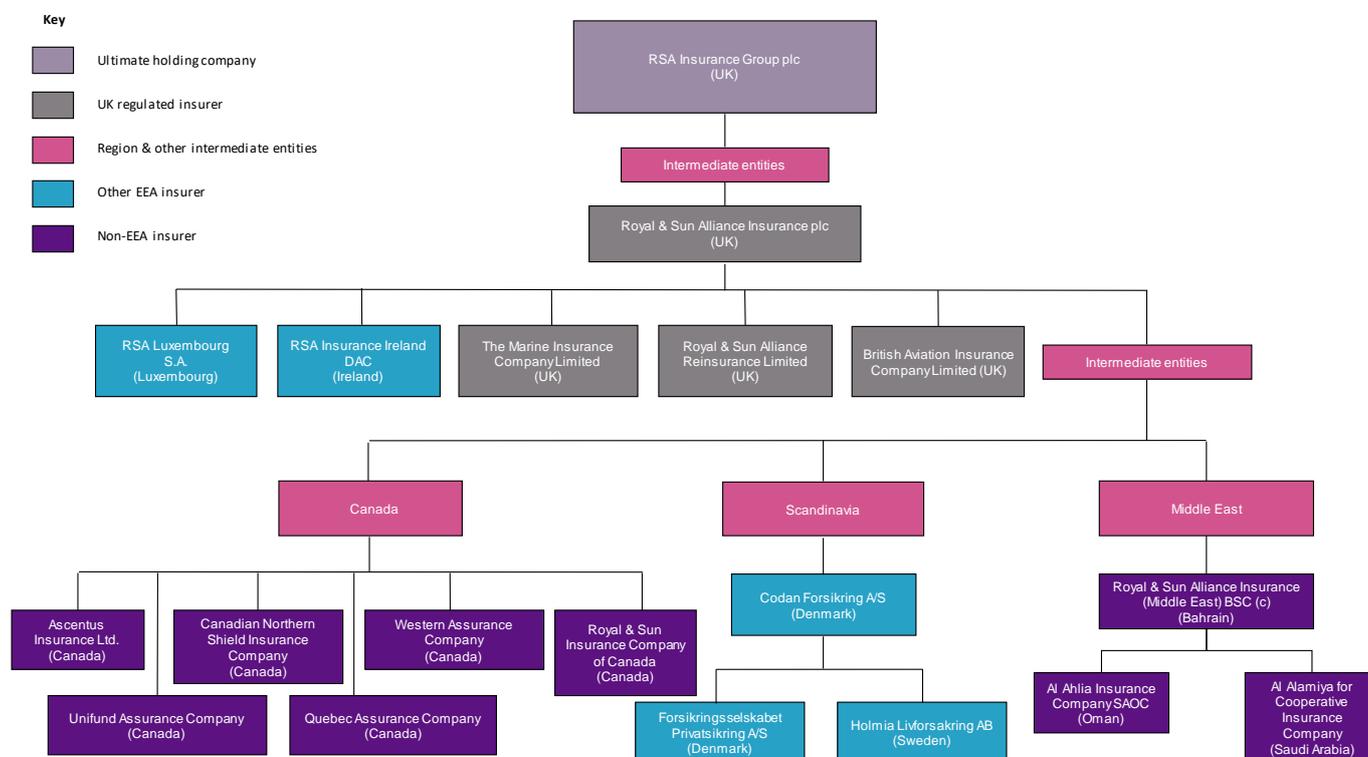
Please see section A.1.7 for the simplified Group Structure.

A.1.6 Material related undertakings

The Company has no material related undertakings.

A.1.7 Simplified Group structure

The RSA Group, which the Company is part of, is organised into regional operating segments with businesses in Scandinavia, Canada, UK, Ireland, Luxembourg and the Middle East.



A.1.8 Business lines and geographical areas

The Company's material lines of business and material geographical areas where it carries out business are detailed in the table below:

| |
|--------------------------------------|
| Geographic regions |
| Denmark |
| Line of businesses – non-life |
| Income protection |
| Motor vehicle liability |
| Other motor |
| Fire and damage to property |

A.1.9 Significant events

As of January 1, 2021, the UK is no longer a member of the EU. This is important for Privatsikring because the company's ultimate parent company RSA is domiciled in England.

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A.1.10 Group operations & transactions within the Group

See Section D. for information on the method and scope of group consolidation.

A.2 Underwriting performance

The profit and loss statement for the Company looks as follows:

| | 2020 DKK K | 2019 DKK K |
|---|----------------|----------------|
| Gross premiums written | 846,167 | 816,677 |
| Net premiums written | 833,406 | 800,092 |
| Earned premiums, net of reinsurance | 841,963 | 807,281 |
| Claims incurred, net of reinsurance | (465,531) | (506,901) |
| Net operating expenses | (224,608) | (196,638) |
| Total material lines of business | 151,824 | 103,742 |
| Investment return | (2,620) | (3,524) |
| Return on and value adjustment on technical provisions | (194) | (1,129) |
| Total investment return after return on and value adj. on technical provisions | (2,814) | (4,653) |
| Profit before tax | 149,010 | 99,089 |
| Tax | (32,811) | (21,802) |
| Profit after tax | 116,199 | 77,287 |

A.2.1 Performance by Line of Business

The main contributors to the result are:

- Positive top line growth in most products with a total growth of 4%
- Improvement in claims ratio in combination with focus on top line growth is driving a significant improvement in underwriting result
- The improved UW result in Fire & other damage to property is driven by improved underlying claims ratio as well as positive Prior year developments
- Motor vehicle liability saw a good underwriting result, driven by improved top line combined with improved underlying claims ratio

An analysis of underwriting performance for the year end 31 December 2020 by material line of business is detailed below:

| | Net Written Premium | | Underwriting Result | |
|---|---------------------|----------------|---------------------|----------------|
| | 2020 DKK K | 2019 DKK K | 2020 DKK K | 2019 DKK K |
| Non-life | | | | |
| Income protection | 158,445 | 154,044 | 15,309 | 20,066 |
| Motor vehicle liability | 46,429 | 54,412 | 6,468 | 7,115 |
| Other Motor | 211,244 | 192,373 | 26,129 | 20,145 |
| Fire and other damage to property | 312,929 | 302,694 | 53,388 | 17,642 |
| Assistance | 75,365 | 68,990 | 24,318 | 21,504 |
| Total material lines of business | 804,412 | 772,513 | 125,612 | 86,472 |
| Non-material | 28,994 | 27,579 | 26,212 | 17,270 |
| Total | 833,406 | 800,092 | 151,824 | 103,742 |

A.2.2 Performance by Geographic Area

The company only operates in Denmark.

A.3 Investment performance

The information in this section of the report is taken from the Annual Report and Accounts.

A.3.1 Income and expenses by class

Asset classes shown in this section follow the definitions used in the Company's financial statements which may differ from the definitions used in Section D (Valuation for Solvency Purposes) of this report.

A summary of the investment return split into interest income and dividends and value adjustments is given below:

| | 2020 | 2019 |
|-------------------------------------|----------------|----------------|
| | DKK K | DKK K |
| Investments | | |
| Interest income and dividends, etc. | 12,726 | 10,399 |
| Value adjustments | (11,244) | (9,737) |
| Interest expense | (22) | (11) |
| Investment management expenses | (4,080) | (4,175) |
| Total net investment return | (2,620) | (3,524) |

| | 2020 | 2019 |
|--|-----------------|-----------------|
| | DKK K | DKK K |
| Value adjustments | | |
| Unit in open-ended funds | (8) | 14 |
| Bonds | (11,455) | (10,161) |
| Total investments | (11,463) | (10,147) |
| Value adjustment & discounting of provisions | 219 | 410 |
| Value adjustments | (11,244) | (9,737) |

| | 2020 | 2019 |
|--|-----------------|----------------|
| Specification of value adjustments | | |
| Realised gains and losses on investments | (9,483) | (10,898) |
| Unrealised gains and losses on investments | (1,980) | 751 |
| Other realised gains and losses | (1) | (11) |
| Value adjustment & discounting of provisions | 220 | 421 |
| Value adjustments | (11,244) | (9,737) |

A.3.2 Gains and losses recognised in equity

There are no gains or losses recognised in equity for the year ended 31 December 2020.

A.3.3 Investments in securitisation

The Company has no investments in securitisation.

A.4 Performance of other activities

A.4.1 Other material income & expenses

Nothing to report.

A.4.2 Operating and finance leasing arrangements

The Company has no material operating or finance leases.

A.5 Any other information

Nothing to report

B. System of Governance

In this section

- B.1 General information on the system of governance
- B.2 Fit and proper requirements
- B.3 Risk management system including the Own Risk and Solvency Assessment (ORSA)
- B.4 Internal control system
- B.5 Internal audit function
- B.6 Actuarial function
- B.7 Outsourcing
- B.8 Any other information

Purpose of System of Governance

System of Governance promotes the safety and soundness of the Group for the benefit of shareholders, customers, employees and other stakeholders. This is achieved through a robust governance structure designed to deliver a well-managed business with effective decision-making, good procedures and strong controls. The components of the System of Governance result in a clear allocation and appropriate segregation of responsibilities and the effective transmission of information internally.

B.1 General information on the system of governance

B.1.1 Board structure

The Group's business is overseen by a single Board of Directors. A minimum of fifty percent of the Board, excluding the Chairman, are Non-Executive Directors. All Non-Executive Directors have been determined by the Board to be independent. The Chairman meets regularly with the Non-Executive Directors both individually and collectively without the Executive Directors being present.

The Board of Directors may exercise all the powers of the Group holding company subject to the Articles of Association, relevant laws, and any directions as may be given by shareholder resolution at a general meeting. The directors may delegate any of their powers or discretions to committees except those matters specifically reserved for the whole Group Board in the Schedule of Matters Reserved, which is reviewed annually.

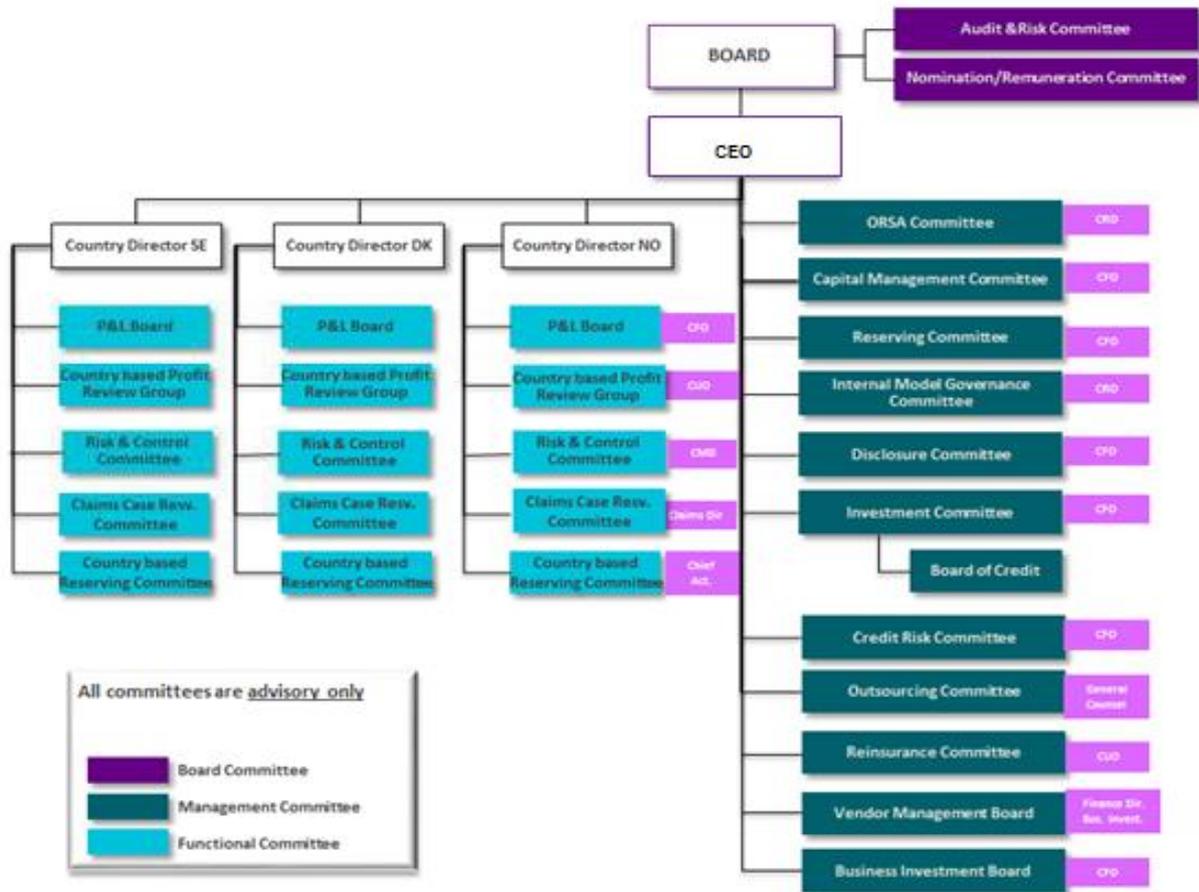
The Board promotes high standards of corporate governance and conduct throughout the Group. It also plays a key role in relation to culture, aligning culture with RSAIG's purpose, values and strategy and aligning policies and practices with company values. The Group's senior leaders are responsible for embedding culture throughout the Group and then escalating any cultural 'red flags'. The Chairman is responsible for leading the annual review of the effectiveness of the Board.

The Board is accountable to shareholders for the creation and delivery of sustainable performance and the creation of long-term shareholder value, while having regard to RSAIG's other stakeholders. The Board believes that open and collaborative dialogue and interaction with all of its stakeholders is in the best interests of the company and helps the Group to make a positive contribution to society. The Board meets frequently and is responsible for organising and directing the affairs of the Group in a manner that will promote the success of RSAIG and is consistent with good corporate governance practice, ensuring that in carrying out its duties RSAIG and the Group meet legal and regulatory requirements. RSAIG's Articles of Association can be found on the Group's website at www.rsagroup.com/articles. The website also hosts copies of the Group's Annual Report and Accounts and publicly available policies.

Board Directors have access to the services and advice of the Group Chief Legal Officer and Company Secretary and in addition may take independent professional advice at the expense of RSAIG in furtherance of their duties.

The Board sets annual objectives for the business in line with the current Group strategy and monitors the achievement of RSAIG's objectives through regular reports which include updates from the Group Chief Executive Officer, the Group Chief Financial Officer and UK & International Chief Executive Officer on all material business matters. Regional reports and updates are provided annually by the Canada and Scandinavia CEOs.

The main Group Board and executive committees and the relationships between them are shown below:



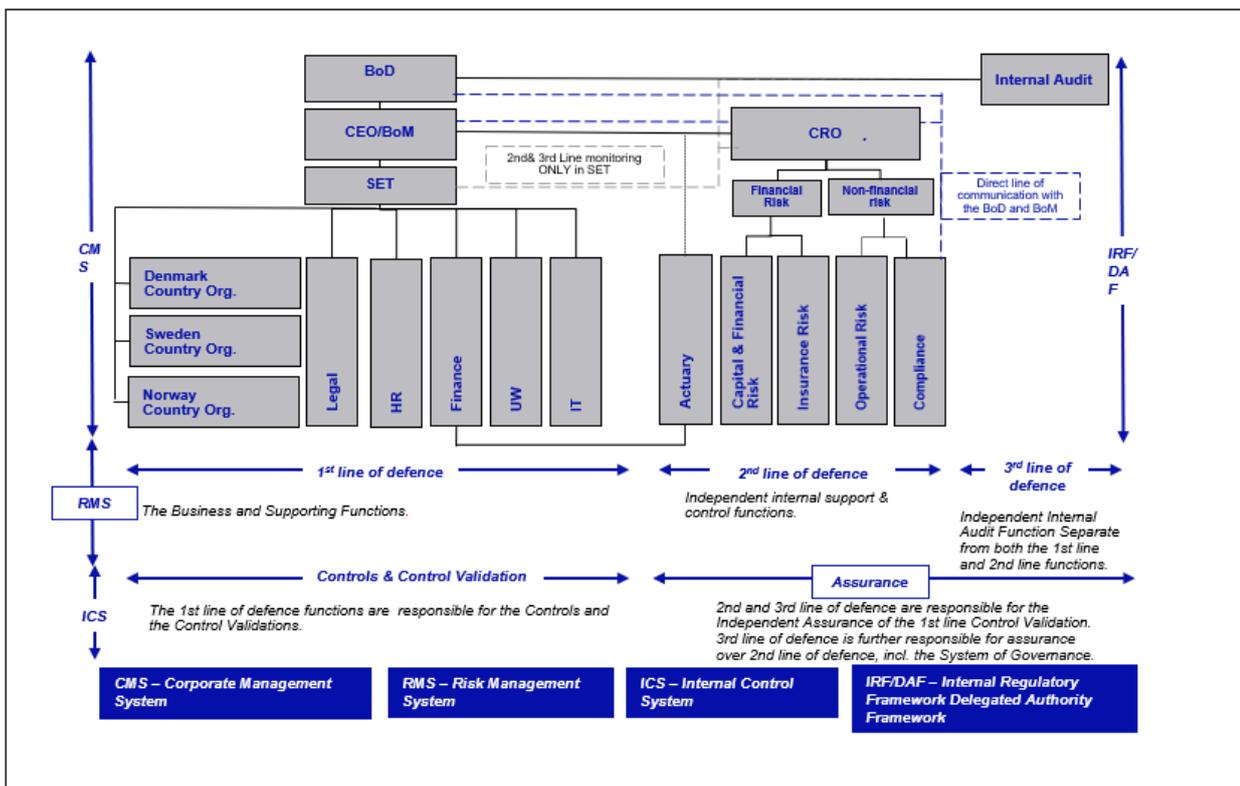
B.1.2 Independent key governance functions

The key governance functions are defined by law and are required to have a clearly defined independence in order to ensure the governance of the Company.

The key governance functions consist of:

- The Actuarial Function
- The Internal Audit Function
- The Risk Function
- The Compliance Function

The diagram below of the Company's management structure, shows the senior management and the day to day reporting lines of those functions, which the Board has determined to be the key governance functions. Note the governance model is applied by the outsourcing partner (Codan Forsikring A/S) to the operations of the Company.



B.1.3 Changes in system of governance

No changes were made to the system of Governance during 2020.

B.1.4 Principles of remuneration policy

The Company ensures that it has appropriate remuneration arrangements through the adoption of a Remuneration policy. The Remuneration policy outlines the overall approach to remuneration, and also the governance framework for making remuneration decisions.

The Remuneration policy is designed to support the business strategy by appropriately rewarding performance and promoting sound and effective risk management, compliance with external regulatory requirements and alignment to the long-term interests of the company and its shareholders.

It establishes over-arching principles and standards to guide remuneration decision-making, which is aligned to local market norms and regulations. These principles are based around alignment to long-term company success, pay-for-performance and risk alignment. A total reward approach is used, such that the reward framework includes both fixed remuneration elements (reflecting an employee's professional experience and responsibility, and can include elements such as base salary, benefits and pension), and variable elements (which can be awarded to eligible employees, reflecting performance).

The Remuneration policy establishes specific remuneration provisions for jobholders whose professional activities have a material impact on the risk profile or have responsibility for Key Governance Functions. These provisions are intended to promote effective risk management and include:

- the balancing of fixed and variable remuneration to enable a fully flexible approach to incentives (including the possibility of paying no variable remuneration);
- the design of incentive plans to encourage performance within the Company's risk appetite, including the consideration of material risk factors in award decisions, the operation of deferral and malus adjustment, and the operation of clawback provisions for Executives; and
- the approach to remuneration in the context of employment termination.

Variable remuneration arrangements for those responsible for Key Governance Functions are designed to be independent from the performance of the operational units and areas submitted to their control.

Governance measures aimed at avoiding conflicts of interest are incorporated.

The policy is reviewed regularly, to ensure that it complies with the principles of good risk management and reward governance, taking into account regulatory requirements and the nature of the business.

B.1.5 Variable remuneration performance criteria

Incentive plans encourage performance in line with the business strategy and within the Company's risk appetite and take into account material risk factors and the Company's ability to maintain an adequate capital base.

Incentive plan performance measures:

- Reflect the Company's priority to create shareholder value through sustained growth and profitability, based on its risk profile. Measures can include for example, underwriting, profit, capital, strategic and shareholder value measures
- Are measured on an 'underlying' basis where appropriate, to provide an undistorted view of business performance and avoid the creation of adverse incentives

Individual performance assessments are based on consideration of what is delivered, but also how goals are achieved, and take account of financial and non-financial criteria.

The performance criteria used in executive incentive plans are set out in the Remuneration Report, in note 6 of the Company's 2020 Annual Report.

For jobholders whose professional activities have a material impact on the Company's risk profile, a number of mechanisms are included to ensure remuneration does not encourage excessive risk taking:

- Total performance-related variable remuneration is based on a combination of the assessment of the performance of the individual, the business unit concerned and the overall result of the Company
- Incentive plans have stretching yet achievable targets, taking account of the Company's Operational Plan which is set with reference to the risk appetite with input from the Risk Function
- Incentive award funding is subject to risk adjustment for exposure to current and future risks, taking into account the Company risk profile and cost of capital. An adjustment can take place prior to the payment of Annual Bonus awards, and prior to the vesting of long-term incentive award cycles
- A portion of variable remuneration in line with legal requirements is subject to deferral to ensure it is aligned with longer-term risk management. The percentage that is deferred, the type of deferred award(s) and the length of the deferral period are determined by taking into account regulatory requirements, the level of the jobholder and the business context

The Company has provisions to apply malus adjustment and clawback.

Variable remuneration arrangements for those responsible for Key Governance Functions are designed to be independent from the performance of the operational units and areas submitted to their control.

B.1.6 Supplementary pensions/early retirement

As a principal rule the Company enters into pension schemes with their employees according to applicable collective agreements. The Company's pension schemes are only based on defined contribution schemes and not on defined benefits schemes. No supplementary pensions are operated for the members of the administrative, management or supervisory body and other Key Governance Function holders.

B.1.7 Shareholder/Board transactions

Apart from normal management remuneration, no transactions, except for those listed below, were entered into during the year with the Board of Directors, the Board of Management, the shareholder or other related parties.

Key Management Transactions

Information regarding transactions that were carried out with the Board of Directors and the Board of Management can be found in the management report section of the Company's 2020 Annual Report.

Other Transactions

All administration of the Company has been outsourced to the parent company Codan Forsikring A/S.

The company has entered into reinsurance arrangements together with the parent company Codan Forsikring A/S and the ultimate parent RSA Insurance Group Plc. Additionally, in order to limit the retention down, reinsurance agreements have been made with Codan Forsikring A/S for the following lines of businesses:

- Motor vehicle liability: DKK 20m excess of DKK 10m
- Personal Accident: DKK 82m excess of DKK 18m
- Fire and other damage to property: up to GBP 25m excess of DKK 18m per event
- Fire and Property Damage per Risk: DKK 90m excess of DKK 10m per risk
- Liability: DKK 15m excess of DKK 10m

B.2 Fit and proper requirements

B.2.1 Specific fit & proper requirements

The Company's Board of Directors has approved a Fit and Proper Policy. This policy applies to individuals who are effectively running and overseeing the business or are key governance function holders in addition to those performing a key governance function activity. This includes the Board of Directors, and the Board of Management as well as the heads of the Key Governance Functions.

The Board assesses that it has the appropriate balance of skills, experience and knowledge to enable it to discharge their duties and responsibilities effectively. The Board considers the skills, experience, independence and knowledge already represented when making decisions on new appointments.

B.2.2 Assessment process

Fit Requirements

The assessment of whether someone is fit includes an assessment of the person's professional and formal qualifications, knowledge and relevant experience within the insurance sector, other financial sectors or other businesses and shall take into account the respective duties allocated to that person, and, where appropriate, the insurance, financial, accounting, actuarial, and management skills of the person.

This includes an assessment of the person's:

- Honesty, integrity and reputation
- Competence and capability
- Financial soundness

Proper Requirements

When assessing whether a person is 'proper', the Human Resources function or the Board of Directors will, within the legislation applicable, consider the following:

- Relevant criminal offences including any offence under the laws governing banking, financial, securities, and insurance activity
- Laws on money laundering, market manipulation, or insider dealing and other relevant legislation
- Criminal offences under legislation relating to companies, bankruptcy, insolvency or consumer protection

B.3 Risk management system including the Own Risk and Solvency Assessment (ORSA)

B.3.1 Description of the risk management system

The Company has outsourced its entire operation to Codan Forsikring A/S. Therefore, the Company's management handles the Company's risks and controls through the Codan Forsikring A/S' organisation. Hence, the Company's largest risk is towards its outsourcing partner and is governed by the contract between the Company and the outsourcing partner. The outsourcing relationship is monitored daily by the CEO of the Company and through the quarterly outsourcing reports presented to the Board. The following describes how the Risk Management System, Own Risk and Solvency Assessment ('ORSA') and Internal Control System of the Company is handled in Codan Forsikring A/S.

The Three Lines of Defence

The Company has a comprehensive risk management system which includes a full range of risk policies, procedures and measuring, reporting and monitoring techniques, and a series of stress tests and scenario analyses to ensure that the risk exposures that arise from operating the Company's businesses are managed appropriately.

The Risk Management System is underpinned by the Three Lines of Defence model. The Board of Directors are responsible for ensuring the effectiveness of the Company's risk management system; for setting the Company's overall risk strategy and risk appetite (including risk limits and tolerances); and for approving the main risk management strategies and policies.

Risk Appetite and Strategy

The Board is responsible for setting the business strategy which is used to inform the risk strategy statement. The risk strategy statement, which is prepared by the Risk Management and approved by the Board, describes the Company's overall strategy and objectives for managing risks based on a set of key principles.

The Risk Appetite is set annually by the Board. It establishes the appetite by risk category, with high level risk limits and tolerances, and drills down into more detailed risk statements. These are expressed through associated Key Risk Indicators with associated risk limits and risk tolerances, which reflect the Company's risk towards the outsourcing partner.

Risk Management Cycle

The risk management cycle describes the process used to set, identify, measure, manage, monitor and report on risk impacting each business.

Risk Identification (New and Emerging)

Risks are identified through a range of activities which include policy and control design; stakeholder scenario workshops (attended by internal and where appropriate external subject matter experts); risk mapping, and an analysis of risk incidents including a root cause analysis. The identified risks, including emerging risks where relevant, are recorded in the business function's risk profile matrix which records the likelihood of occurrence, the expected residual loss impact, and whether the residual risk is within risk appetite or if not, and whether there is an appropriate action plan.

Risk Measurement

Once risks have been identified, the business updates its risk profile by including the residual risk (the risk of an event occurring which would crystallise a loss, assuming existing controls and other mitigating actions are effective) on a standard 5x5 probability and impact matrix.

Significant risks are periodically reviewed for potential inclusion in the Internal Model.

Managing, Monitoring and Reporting Risk

All residual risks are assessed and monitored to determine if the risk is within Risk Appetite, and, if not, whether there is a plan with an assigned owner to bring within appetite within a reasonable timeframe.

Action owners must track all action plans to ensure risk is brought within appetite within the planned timeframe, and report progress at least quarterly.

Outputs of the internal model are used by the Board as an integral part of its decision making, to setting the risk appetite, adjusting investment exposure and hedges, reinsurance strategy, insurance portfolio risk assessment, and key strategic decisions such as disposals.

B.3.2 Implementation and integration

The Company has implemented a system of governance through which risk management and control is embedded. Each business within the Company is required to follow a consistent process to identify, measure, manage, monitor and report its risks, in line with a consistent and comprehensive set of policies.

The application of the three lines of defence and its interaction with the Internal Control System is shown in the figure in section B.1.2.

B.3.2.1 RSA Internal model governance & assurance

In December 2015, the RSA Group received approval to use the RSA Group Internal Model to calculate the Solvency Capital Requirement (SCR) for itself and some of its subsidiaries, including the Company. In June 2020, RSA Group, in collaboration with Codan Forsikring and Privatsikring, made an application to the College of Supervisors to implement Major Model Changes to the Internal Model. The application was approved in December 2020.

Given the Brexit transition period ended January 1, 2021, it is the Company's assumption the Internal Model will no longer be applicable. The Company did not apply for the approval of the existing Internal Model to the DFSA. Hence, the Standard Formula will be used to calculate SCR from January 1, 2021.

Apart from being used to calculate the SCR, the Internal Model is also used to inform the business decisions as helping to assess reinsurance purchase, evaluate the impact of e.g. investment strategic decisions and allocate capital to individual lines of business facilitating thereby risk-based profit and loss attribution.

The model has a common governance and assurance framework, which oversees how the model is run, updated and results reported.

The structure of the Governance Framework is shown in the following table:

| Responsibility | Body / Function | Activity |
|---|---------------------------------------|--|
| Held accountable but delegates Internal Model oversight responsibility to the Internal Model Governance Committee (IMGC). | Board | Monitors IMGC activity and receives sufficient information to oversee the model and understand the output. |
| Ensures model oversight is of appropriate design, operation, risk coverage and compliance. | Board | Reviews and challenges IMGC activity, including regular reporting of internal model changes, results of model runs and associated sensitivities, as well as monitors the ongoing appropriateness of the internal model through receiving the Internal Model Validation Report. |
| Ensures operation within regulatory requirements and co-ordinates internal and regulatory economic capital processes. | IMGC | Receives and challenges results of the internal model runs, identifies the need for and assesses changes to the internal model including updates to calibrations and structure. Reviews validation findings and undertakes program of model improvement including enhancing uses of the model. |
| Undertakes program of independent validation and reports results to Board (with debate at IMGC). | Risk Function (Assurance Provider) | Performs validation activity, identifies validation issues and monitors their development and closure. Reviews and challenges the outputs of the model including estimated capital positions and forecasts. |

The IMGC is responsible for providing overall direction and drive for the governance of the internal model in addition to acting as the co-ordinating body for the internal and regulatory economic capital process. It regularly provides updates to the Board.

The IMGC ensures that the Company's Internal Model Change Policy is adhered to and remains compliant with regulation; that data quality and assurance processes are in place; and that independent model validation is performed.

B.3.2.2 Internal model governance changes in the year

There were no material changes to the internal model governance during the reporting period.

B.3.2.3 Internal model validation

The Solvency II Directive (Article 124) requires firms to establish independent validation processes to ensure that the Internal Model is properly designed, developed, tested, documented, implemented and used appropriately. The required validation activities are set by the Internal Model Validation Policy.

Validation is seen as a regular process, the primary goal of which is to provide the Board with assurance that:

- The internal model is fit for purpose
- The internal model achieves its objectives as defined by the business

Validation assesses the key assumptions and outputs of the model and involves a number of tools and activities such as Stress and Scenario Testing, P&L Attribution and Use Test validation.

Each year, the Validation team reports the results of the internal model validation undertaken to the Board and outlines recommended actions and timescales for remediation to occur.

B.3.3 ORSA process

During the year, the Board considers a range of activities carried out at different times as part of the ORSA process.

The assessment of risk and solvency needs is in principle carried out continuously and consists in practice of a series of inter-related activities whereby the process establishes:

- current and future risks to which the regulated entity is exposed
- the level of capital required to support those risks
- the quality of capital available
- actions the regulated entity will take to achieve and maintain the desired levels of risk and capital

If deemed necessary, the activities that form part of an annual cycle, are supplemented by ad hoc assessments of the impact of external events, emerging trends, significant risk events, and breaches.

B.3.4 ORSA Review and Approval

Reporting dealing with individual elements of the ORSA is presented to the CEO and the Board throughout the year.

A final report is presented to the CEO and Board, and actions and associated decisions deriving from the Board's risk and solvency assessment, are tracked as part of the annual ORSA process, demonstrating that these have been dealt with in a coherent and consistent manner. Furthermore, the findings stemming from the ORSA report form part of the challenge of the Company's Operational Plan.

B.3.5 Solvency Needs & Risk Management System / Capital Management

As part of the ORSA process, the Company looks at the capital it needs using various bases including:

- SCR
- Board approved capital thresholds

Using these measures, the Company is then able to assess in aggregate its own solvency needs and corresponding capital available. The Internal Model is used for the calculation of the SCR and is calibrated based upon the risk exposures of the Company.

In addition, when setting the risk appetite, various levels of buffer to cover potential operating shocks are allowed for. Finally, as part of the Operational Plan and ORSA processes, the capital position of the Company is projected over the period of the Operational Plan to ensure that the Company will have sufficient capital to meet its needs.

B.4 Internal control system

B.4.1 Description of the internal control system

The Company has set up an effective internal control system which contains administrative and accounting procedures, an internal control framework, with appropriate validation, assurance and reporting arrangements at all levels of the Company, a delegated authority framework, and a regulatory compliance framework. The internal control system is underpinned by the Three Lines of Defence model.

The internal control system comprises three key elements:

- Internal control framework, whereby policies establish standard controls, which are implemented and operated by the business; supplemented by objective 1st Line validation and independent 2nd Line assurance processes. The internal control framework includes financial controllership. It is subject to assurance through the Financial Control Framework ('FCF') including control reporting
- Delegated authority framework, whereby authority is cascaded down from the Board to the business
- The compliance framework sets out the standard control processes to minimise and/or prevent the risk of material loss, reputational damage or liability arising from the failure to comply with regulatory requirements. Ultimate responsibility for compliance with the relevant rules and regulations rests with the Board, the executive and the senior management in each business. Advice, challenge, and interpretation is provided to these bodies by the Compliance function

Internal Control Framework

The internal control framework is designed to identify, and mitigate, the potential risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material financial misstatement or loss. Company policies cover all material risk types to which the Company is exposed, and set out both minimum requirements and standard control sets for business activities, including delegated activities, which allows the Company to achieve its objectives including effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations.

Policies also establish control validation activities (1st Line checks), which ensure controls are designed and operating effectively and assurance activities (2nd Line) which examine and oversee business control validation activities to provide additional independent comfort that objectives are being achieved and adequate controls are in place and working effectively.

Adherence to the control sets, and the progress and findings of assurance and validation activity are reviewed by the relevant control related committees. Key issues identified in these control Committee meetings are escalated to the Board. Relevant trends and risks will also be notified to the Board, as appropriate.

Delegated Authority Framework

The Delegated Authority Framework specifies how executive authority is delegated from the Board to the Chief Executive Officer, and onwards to senior management within the Company on a yearly basis. The Chief Executive Officer and senior executives across the Company receive an executive licence setting out their specific limits of authority in terms of entering into financial, underwriting, claims and other business commitments. Each executive is responsible for ensuring a similar process of delegation is in place within his or her area of responsibility.

Effective management of Delegated Authority enables the business to:

- Ensure that all employees execute their responsibilities within a clearly defined set of limits and subject to specified terms and conditions appropriate to their role, competence, experience and technical capability so as to mitigate the risk of the Company being exposed to material financial, operational, legal, reputational and/or regulatory risk and/or loss

- Ensure consistency is embedded into separate policies that have been written covering operational and technical matters
- Ensure that the risks associated with managing and delegating authorities are mitigated using of appropriate preventative and detective controls and remain within Risk Appetite
- Ensure compliance with relevant regulatory and statutory requirements

The Delegated Authority Framework is applied where individuals must operate and/or authorise within limits delegated by the Chief Executive Officer, his direct reports and/or governing bodies.

Regulatory Compliance Framework

The Regulatory Compliance Framework is a set of governing documents that implement the regulatory requirements. The framework consists of Policies adopted by the Board, Instructions adopted by the Chief Executive Officer and Standard Operating Procedures adopted by the Senior Executive Team members in accordance with the governance structure.

B.4.2. Compliance function

The legal requirements, and the Compliance Policy require the Company to have a Compliance Function.

The purpose of the Compliance Function is to ensure that the Company meets the relevant regulatory requirements. It uses a range of tools to do this which are developed in co-operation with Codan Forsikring A/S and the RSA Group. The Compliance Function is an influencer in ensuring strong regulatory compliance culture and ensure that mechanisms are in place to identify, report and resolve issues to avoid or minimise business impact.

The Compliance Function is responsible for developing and maintaining the relationship between the Danish FSA and the Company.

By applying a risk based approach the Compliance Function establishes, implements and maintains an Annual Compliance Plan setting out the compliance work to be undertaken in the upcoming year based on key compliance risk areas. Updates on progress and material changes are provided on a quarterly basis to the Board. Furthermore, the Compliance Function has the possibility of reporting regulatory incidents or matters of significance to the Board directly.

Furthermore, the Compliance Function reports to the Board on any potential regulatory breaches or incidents of the outsourcing partner that is relevant for the Company.

B.5 Internal audit function

B.5.1 Implementation

The Internal Audit Function is an independent and objective function reporting to the Board of Directors. The Chief Auditor has a primary reporting to the Chairman of the Board, with a secondary line to the Company's Chief Executive Officer. Furthermore, the Chief Auditor is approved by the Danish FSA and complies with the resulting requirements of professional conduct and competence.

The Internal Audit Function does this by assessing whether all significant risks are identified and appropriately reported by management and the second line of defence to the Board; assessing whether they are adequately controlled; and by challenging management to improve the effectiveness of governance, risk management and internal controls.

The Chief Auditor has the right to attend all committee meetings in the Company and obtain access to any material related to these.

At least once a year, the Chief Auditor meets with the members of the Board without management being present. The Chief Auditor has direct access to the Chairman of the Board.

The Internal Audit Function's scope of activities is unrestricted, and its audit universe extends to all legal entities, joint-ventures and other business partnerships, outsourcing and reinsurance arrangements. Its scope includes first line control validation, second line control assurance and the system of governance as set out under Solvency II.

On a semi-annual basis, the Chief Auditor submits a six-month rolling risk-based audit plan (i.e. a detailed plan for the upcoming six months, together with an outlook for the subsequent six months), including emerging and systemic risks to the Board for review and approval. The six-month rolling audit plan is developed based on the Internal Audit Function's independent risk assessment and a prioritisation of the audit universe, considering inputs from the Senior Executive Team, the Board of Management, the Board of Directors and Internal Audit's assessment of various "planning lenses" which include fraud risk, culture trends and emerging issues that could impact the organisation.

The Internal Audit Function's coverage of the business is based on the principles of a three-year rolling coverage, in which it aims to cover all inherent high risks twice and all inherent medium risks once. Any high or medium risk areas not covered within the three-year time period shall be made transparent to the Board. The Head of Internal Audit will review and adjust the plan, as necessary, in response to changes in the business, risks, operations, programs, systems, and controls. Any material changes from the audit plan will be communicated through quarterly reporting to the Board for approval. When necessary, Internal Audit may conduct audit engagements which are not included in the audit plan, these may be carried out without notice. In addition to the six-monthly rolling audit plan that is reviewed and approved by the Board, the Head of Internal Audit ensures that the function has a multi-year outlook in line with the Company's strategic and operational plan.

The Chief Auditor will ensure that Internal Audit has the appropriate budget and resources and that Internal Audit collectively has the skills and capabilities to effectively deliver on its purpose and mandate. This includes consideration of trends and emerging issues that could impact the organisation. Where appropriate, independent internal or external co-sourced resources may be engaged to supplement the core team and deliver all or part of an audit engagement.

Compliance of audits with the professional standards is monitored within Internal Audit through an independent quality assurance process, outsourced to Deloitte and operated on a continuous basis. The function is governed by an Internal Audit Charter which sets out the function's role, mandate and authority, and includes independence and objectivity criteria.

B.6 Actuarial function

The Actuarial Function provides assurance that the actuarial information to set technical provisions for Danish GAAP for the Company and IFRS for RSA Group purposes uses appropriate methods, models, and assumptions. It also confirms the adequacy of the Solvency II technical provisions and informs areas where experience is different and how this has influenced methods, models and assumptions. The Actuarial Function undertakes the duties and responsibilities set out for an Actuarial Function in accordance with Solvency II.

The Actuarial Function holder has independent access to the Board. On an annual basis the Actuarial Function produces the Actuarial Function Report summarising the key conclusions of the Actuarial Function's work. This is presented to both the Board and the Reserving Committee.

B.7 Outsourcing

B.7.1 Policy and key activities

Outsourcing is regulated by the Outsourcing Policy approved by the Board of Directors.

The Board approved Outsourcing Policy includes requirements regarding:

- Decision authority and requirements for the Board to approve before entering into outsourcing of material areas of activity according to the applicable regulation from the Danish FSA
- Requirements for decision basis including due diligence when choosing the service provider
- Contractual requirements to all outsourcing agreements
- Control requirements
- Notification and filing requirements including notification of the Danish FSA
- Reporting requirements including on-going reporting to the Board of the service providers' performance and follow-up in case of unsatisfactory performance, including reporting to the Board
- The policy also gives the CEO mandate to approve sub-outsourcing and to prolong outsourcing agreements in specific cases

The Board is ultimately responsible for all outsourcing however, the General Counsel has an overall first line ownership of the outsourcing regime within the Company. The CEO reports on a quarterly basis to the Board on the performance of the outsourcing, unless there is an incident or other essential occurrence which require the attendance of the Board in which case the Board is notified immediately.

For governance purposes, for each outsourcing agreement, a specific procedure for monitoring, controlling and reporting is established. If outsourcing of a critical or important function or process is to take place, such procedures must be approved by the Board in connection with the Board's approval of the outsourcing agreement. The compliance function monitors and reviews adherence with applicable regulations.

B.7.2 Intra-Group outsourcing arrangements

The Company has entered into an outsourcing agreement with Codan Forsikring A/S ("Codan"). There are no other outsourcing arrangements in place. Codan has, for their part, outsourced part of their operation internally as well as externally – however the majority of services are delivered from Denmark. The outsourcing agreement is supplemented with individual SLA's for each function/service outsourced in order to have a clear ownership of who on the one hand manages the delivery from Codan and on the other hand makes the order and control the delivery as such and reducing the risk of conflicts of interest.

The intra-group provider, Codan sub-outsources IT-functions and Finance related services to external providers. The CEO of the Company are employed by the Company directly as well as the Key Function holders, however, all other functions and recourses have been outsourced.

The service types outsourced include:

- Underwriting
- Reinsurance
- Claims handling
- Risk, compliance and Actuarial functions
- Finance including Investments
- IT-systems and IT-security
- Sales and product development

Most of these services have been deemed critical or important by the Company. In addition to the regular monitoring of the outsourcing partner by the CEO the outsourcing is reviewed as an operational risk which is monitored by the Risk function and further described in the Operational Risk section in this document.

The intra-group outsourcing agreement with Codan is reviewed on a yearly basis and updated to reflect changes relating to the scope of services delivered and new legal requirements.

B.8 Any other information

B.8.1 Adequacy of system of governance

The adequacy of the system of governance is formally considered by the Board of Directors annually. This process considers both changes and recommendations previously made during the year (such as through internal audit reports) and any recommendations by the Legal and Compliance function based on their observations or regulatory change. If deemed necessary, changes can also occur outside of this formal review.

B.8.2 Any other material information

Nothing to report.

C. Risk Profile

In this section

C.1 Underwriting risk

C.2 Market risk

C.3 Credit risk

C.4 Liquidity risk

C.5 Operational risk

C.6 Other material risks

C.7 Any other information

The Company has outsourced its entire operation to Codan Forsikring A/S. Therefore, the Company's management handles the Company's risks and controls through Codan Forsikring A/S' organisation. This section of the report provides more detail on the risks faced, including how the Company measures and mitigates against them. The Company is exposed to the following main categories of risk:

- Insurance Risk
- Market Risk
- Credit Risk
- Liquidity Risk
- Operational Risk

The categories are described in sections C.1 to C.5 respectively. Insurance risk includes claims risk and reserving risk and these are all described under the prescribed heading 'C.1 Underwriting risk'.

Section C.7 brings together information on the Company's stress and scenario testing across all categories of risk.

For quantification of the relative importance of each risk type to the Company, see section E.2.2.

C.1 Underwriting risk

C.1.1 Introduction

Underwriting, claims and reinsurance risks

The Company manages these risks through its underwriting strategy, reinsurance arrangements and proactive claims handling.

The Risk Appetite Statement sets the high-level appetite for Insurance Risk. Additionally, the Company has a centrally managed committee to examine underwriting and claims issues, review and agree underwriting direction and set policy, frameworks and directives where appropriate.

The underwriting strategy aims to ensure that the underwritten risks are well diversified in terms of type and amount of risk, industry and geography.

The underwriting Risk Appetite Statements set the context within which individual portfolio strategy statements are developed, setting the appetite for the writing of individual risks.

Specific to the Risk Appetite, the Underwriting and Claims Policies define the controls implemented to manage the Company limited appetite for:

- 'Special High Risks' including long term policies and lines of business where the Company lacks appropriate specialist expertise and reinsurance support
- Writing business in 'High Risk Countries' designated due to sanctions or presenting an unacceptable level of operational risk

Reserve risk

The Company establishes technical provisions for claims to account for the anticipated ultimate cost of all claims and relevant expenses for claims that have already occurred. The Company establishes technical provisions for both reported and unreported claims. Technical provisions estimate are based on known facts and on interpretation of circumstances including the Company's experience with similar cases, and historical claims payment trends. The Company also considers the development of claims payment trends, levels of unpaid claims, judicial decisions and economic conditions.

C.1.2 Measures used to assess risk

Underwriting and claims risk

The Company's underwriting strategy and risk appetite are reviewed, challenged and approved by the Board of Directors annually.

Key risk indicators assess risk against the Board risk appetite and these are reported at the quarterly ORSA Committee. Underwriting risk indicators include measures for exposure control, pricing, the control environment and licences.

Portfolio strategy is reviewed quarterly under the Portfolio Risk Management process (Portfolio Reviews). This enables ongoing, proactive management of the implementation of portfolio strategies together with facilitation of forward looking portfolio risk assessments against measured key risk indicators. Risks and issues are escalated to Risk and Control Committees and the ORSA Committee.

Claims risks are monitored separately to facilitate management within appetite. The scope of claims risk indicators covers financial control, technical quality, case reserving, fraud, and control of external delegated authorities.

Scenario and Stress Testing is undertaken with continuous interaction with senior management and formally reported via the ORSA report

Risk Profiling are undertaken and are reported through the Risk and Control Committees, ORSA Committee and to the Board.

Accumulations for static exposures are modelled using the GAIA Exposure Data Management system to identify 'Per Risk' and Catastrophe risk concentrations, and to inform scenario modelling and reinsurance purchase. The Scandinavian Exposure Management Committee formal oversight and reporting of the standards for data quality and the minimum requirements for identifying and controlling 'Per Risk' and Catastrophe risk concentrations.

The effectiveness of pricing tools and process is measured through the Pricing Capability Assessment Questionnaire ('PCAQ') to benchmark the capability against defined measures. The PCAQ defined measures include an assessment of the pricing components, i.e. use of historical claims frequencies and severity averages, adjusted for inflation and modelled catastrophes trended forward to recognise anticipated changes in claims patterns and allowance in the pricing procedures for acquisition expenses, administration expenses, investment income, the cost of reinsurance, and for a profit loading that adequately covers the cost of capital.

Underwriting and Claims Validation Reviews are held periodically to test the effectiveness of the processes and controls in the risk management frameworks. Gaps in compliance with the controls require either a Remediation Plan or a Risk Acceptance against the respective control(s) under the Risk Policy Management process. Underwriting and Claims monitor the progress of Remediation Plans and is the approver for Risk Acceptances. These are reported to the Risk and Control Committee and ORSA Committee, with overdue items escalated to the Group Senior Claims Underwriting and Reinsurance Management forum.

Breaches of controls are escalated and reported, with material Risk Events escalated to the Risk Function. The Insurance Risk Team perform assurance reviews of the processes and controls pertaining to Underwriting and Claims in the risk management framework and results are reviewed and managed via appropriate Risk & Control Committees.

Reserve risk

The Company has a Reserving Committee chaired by the Chief Financial Officer and consisting of the Chief Executive Officer, the Underwriting Director, the Chief Actuary and the Chief Risk Officer.

In forming its collective judgement, the committee considers the following information:

- An actuarial indication of ultimate losses together with an assessment of risks and possible favourable or adverse developments that may not have been fully reflected in calculating these indications. At the end of 2019 these risks and developments include: the possibility of future legislative change having retrospective effect on open claims; changes in claims settlement procedures potentially leading to future claims payment patterns differing from historical experience; the possibility of new types of claim, such as disease claims, emerging from business written several years ago; general uncertainty in the claims environment; the emergence of latent exposures; the outcome of litigation on claims received; failure to recover reinsurance and unanticipated changes in claims inflation
- The views of internal peer reviewers of the reserves and of other parties including actuaries, risk management, underwriters and claims managers
- How previous actuarial indications have developed

C.1.3 Material risks

Material risks identified during the reporting period include:

- Catastrophe risk: covers the risk that a single event or series of events of major magnitude usually over a short period, leads to a significant increase in actual claims compared to total expected claims. Losses can arise from either natural perils, for example windstorm, and flood, or from man-made perils, for example industrial accident
- Pricing risk: the risk that portfolio pricing strategies, monitoring and rating are insufficient to generate sufficient returns in key portfolios to maintain profitability and pay claims
- Reserving risk: the risk that case reserves are insufficient, untimely or inaccurate leading to unforeseen adverse development. The risk that more claims are reported in future than anticipated. The risk that legislative changes have a retrospective effect on claim settlements
- Underwriting risk selection: covers the risk that claims arising on exposures after the valuation date are higher (or lower) than assumed in the pricing other than due to catastrophes. This can arise as the result of bad experience, third party interventions, ineffective portfolio management, poor pricing, poor risk selection or failure to underwrite effectively, or failure to handle claims effectively due to management information or process deficiencies (claims leakage)
- Claims management risk: financial losses through ineffective claims management processes

There have been no material changes to the risks identified above through the reporting period.

C.1.4 Application of the prudent person principle

Not applicable to underwriting risk.

C.1.5 Material risk concentrations

Material risk concentrations are identified through a robust process and the Company's two key natural catastrophe types are Northern Europe windstorm and Danish cloudbursts.

C.1.6 Underwriting and Claims Risk

The Company operates a comprehensive risk management system and policy management framework. This system includes policies which govern key activities such as Underwriting, Claims, Reinsurance and the assessment of insurance risks. The policies introduce a system of mandatory controls frameworks which stipulate a system of minimum requirements and standard controls, and key risk indicators which are used to measure the effectiveness of these controls in mitigating risk. Each quarter, management are required to report on the operation and effectiveness of these controls to governance committees. Key risks are escalated to the Chief Executive Officer and ultimately to the Board. Controls which are not considered effective are subject to remedial action and risk oversight.

The Underwriting and Claims governance and control framework spans over several key activities, including (but not limited to):

- The delegation of technical authority (internal and external) including licensing and referrals
- Portfolio strategy, performance and risk management
- Pricing
- Accumulation and exposure management
- Multi-national risks
- Risk control / inspection
- Underwriting and claims file review / validation
- Claims management processes
- Case reserving

The management and mitigation of credit risk for reinsurance are described in section C.3.6 Risk Mitigation.

Reinsurance is a key tool used to mitigate the effect of catastrophe and underwriting risks. Being a part of a group, most of the Company's reinsurance is placed through the RSA Group via Codan Forsikring A/S. Reinsurance arrangements in place include facultative and treaty covers. The Company's treaty reinsurance is largely excess of loss in nature, but also includes a small number of proportional covers. The effect of such reinsurance arrangements is that the Company should not suffer total net insurance losses beyond the Company's risk appetite in any one year.

The Company is exposed to both multiple insured losses and losses, arising out of a single occurrence, for example natural peril events such as windstorm, flood or cloudburst.

Through the RSA Group, the Company centrally participates in the purchase of significant catastrophe cover, buying to a minimum return period of 1:200 years. All catastrophe reinsurance is placed with reinsurers with a Standard & Poor's credit rating of 'A-', or better. The RSA Group Catastrophe Treaty protects all the RSA Group entities, including the Company.

C.1.7 Risk sensitivity

See section C.7 for information on Stress and Scenario Testing for all categories of material risk.

C.2 Market risk

C.2.1 Introduction

The Company has outsourced its investment management to Codan Forsikring A/S.

The Company is exposed to market risk, which is the risk of potential losses from adverse movements in market prices including those of bonds, equities, property, as well as credit rating downgrade risk, credit spread risk, credit default risk, and asset-liability matching risk.

C.2.2 Measures used to assess risk

The Company assesses its market risk exposures through several factors including: exposure by asset class; credit rating of counterparties; asset liability mismatch due to divergence in duration and currency exposures; and concentration exposures. In addition, stress and scenario analysis is undertaken to assess market risk exposures.

Exposures are controlled by the setting of investment limits and managing asset-liability matching in line with the Company's risk appetite.

The Board is responsible for reviewing and approving the investment strategy for the investment portfolios. It provides approval for all major changes of the investment strategy. In addition, asset liability matching both by currency and duration is monitored and reported to the Investment Committee. This includes limits on asset class exposures, single counterparty exposures, aggregate bonds by credit rating, portfolio duration etc. These limits aim to keep exposures within the Company's risk appetite whilst ensuring the portfolio is sufficiently diversified. Investment exposures relative to these limits are regularly monitored and reported.

C.2.3 Material risks

The Company is exposed to the following material market risks:

Interest Rate Risk

The fair value of the Company's portfolio of fixed income securities is inversely correlated to changes in market interest rates. Thus, if interest rates fall, the fair value of the portfolio would tend to rise and vice versa.

In assessing this risk, the Company will have reference to the interest rate exposures of its liabilities with risk being the difference between asset and liability exposures.

Equity Price Risk

The Company's portfolio of equity securities is subject to equity risk arising from changes in market price. Thus, if the value of equities rise, so will the fair value of its portfolio and vice versa.

C.2.4 Application of the prudent person principle

The Company applies a Market Risk Policy and a Liquidity Risk Policy that set out the minimum requirements for the identification, measurement, monitoring and reporting of Market and Liquidity Risk for the Company's investment portfolio. A set

of key risk indicators in the form of an Investment Limits framework has been developed alongside the investment policy – the policy refers to this for investment risk management and reporting purposes.

In particular, the Prudent Person Principle (PPP) requires each operation and the Company to exercise prudence in relation to the investment portfolio and to ensure assets are appropriate to the nature and duration of its liabilities (assets and liabilities management – ‘ALM’). It must also be able to show that it has appropriate systems and controls to hold and manage any such investments.

The Company follows a high quality, low risk investment strategy with limited exposure to higher volatility investment classes such as equities. Asset and liability duration is broadly matched, with limited flexibility for tactical asset management.

The Company’s portfolio focus is on high quality bonds and cash, with measured holdings in equities and property. At 31 December 2020, the Company held over 95% of its investment assets in cash, cash instruments, government bonds and ‘AAA’ rated non-government bonds, minimising any liquidity risk and enabling funds to be transferred when required. The credit rating of the bond portfolio of the Company is predominantly investment grade with 100% of bonds held rated ‘A’ or higher at 31 December 2020.

The PPP also requires a duty of care that must be applied for investments that are of non-routine nature, or that are not admitted to trading on a regulated financial market or to complex products such as derivatives or securitised instruments. The Company follows a high quality, low risk investment strategy with limited exposure to higher volatility investment classes such as equities, and balance sheet foreign exchange volatility. Asset and liability duration is broadly matched, with limited flexibility for tactical asset management.

C.2.5 Material risk concentrations

The Company’s investment portfolio consists predominantly of high quality, investment grade, fixed income assets reflecting the duration of its underlying insurance liabilities.

C.2.6 Risk mitigation

The Company maintains a low risk, high quality portfolio with exposure concentrated in bonds and cash and only limited exposure to equity and property. Credit risk exposure is mitigated by the high-quality nature of the portfolio with over 95% investment grade and more than 95% of fixed interest and cash rated ‘AA’ or above. Counterparty concentration risk is limited through limits placed on single counterparties reflecting a number of criteria including the counterparties’ credit rating, industry and geography. The Company ensures that it maintains sufficient liquidity for its needs by having a limited exposure to highly liquid assets such as cash, bonds rated ‘AAA’ and government and government guaranteed bonds.

Interest rate risk is limited through the Company maintaining a strong match of its bond asset duration relative to its liabilities. The Company maintains a limit of its asset duration being within one year of benchmarks which are established to provide a broad match to liabilities. Exposures are monitored by the Investment Committee and by relevant RSA Group committees on a monthly basis.

C.2.7 Risk sensitivity

See section C.7 for information on Stress and Scenario Testing for all categories of material risk.

C.3 Credit risk

C.3.1 Introduction

Credit risk is defined as the risk of loss resulting from a counterparty failing to fulfil its contractual obligations to the Company or failing to do so in a timely manner. The Company is exposed to credit risk in respect of its reinsurance contracts; insurance operations (where counterparties include brokers, policy holders and suppliers); and investments (where counterparties include governments and corporate bond issuers).

Within the Company, the management of credit risk is divided into three key areas, which are governed by separate policies:

- Reinsurance
- Investments is governed in the market risk policy
- Insurance operations

C.3.2 Measures used to assess risk

Credit risk arises any time Company funds are extended, committed, invested or otherwise exposed through actual and/or implied contractual agreements with counterparties whether reflected on or off-balance sheet.

The Board is responsible for ensuring that the approved credit risk appetite is not exceeded. This is done through the setting and imposition of the Company's policies, procedures and limits.

In defining its appetite for counterparty credit risk, the Company looks at exposures at both an aggregate and business unit level distinguishing between credit risks incurred as a result of offsetting insurance risks or operating in the insurance market (e.g. reinsurance credit risks and risks to receiving premiums due from policyholders and intermediaries) and credit risks incurred for the purposes of generating a return (e.g. invested assets credit risk).

Limits are set at both a portfolio and counterparty level based on likelihood of default, derived from the rating of the counterparty, to ensure that the Company's overall credit profile and specific concentrations are managed and controlled within risk appetite.

Financial assets are graded according to Company standards. Investment grade financial assets are classified within the range of 'AAA' to 'BBB' ratings. 'AAA' is the highest possible rating. For invested assets, restrictions are placed on each of the Company's investment managers as to the level of exposure to various rating categories including unrated securities.

The Company is responsible for assessing and monitoring the creditworthiness of their counterparties (e.g. policyholders, brokers, and third-party suppliers). Reinsurer counterparty credit risk is set by the Reinsurance function.

C.3.3 Material risks

The Company is mainly exposed to the following types of credit risk:

- Counterparty risk: defined to be the risk that a counterparty fails to fulfil its contractual obligations and/or fails to do so in a timely manner. This includes all types of counterparties such as agents, brokers, reinsurers and other third parties.
- Credit concentration risk: defined to be an uneven distribution of exposure to counterparties, single-name or related entity credit concentration, and/or in industry and/or services sectors and/or geographical regions.
- Credit downgrade risk: defined to be the loss or gain from a change in an investment's credit rating agency rating and/or an analyst buy, sell, hold opinion.

- Credit spread risk: defined as the spread in returns between government securities and/or any non-government security that are identical in all respects except for the quality of the credit rating of the security's counterparty.

The business is required to establish appropriate processes in order to identify its outstanding debt and the aging of that debt.

The business is required to implement processes and procedures in order to collect its outstanding debt in a manner that is consistent with the credit terms provided.

In cases where collection is delayed or is not possible, each business is required to record a provision or write-off of the debt. No significant changes during the reporting period.

C.3.3.1 Reinsurance credit risk management

Reinsurance credit risk is defined as the credit risk arising from the purchase of all treaty reinsurance and facultative reinsurance by underwriters in accordance with their licences.

C.3.3.2 Invested assets credit risk, credit downgrade and credit spread risk

Invested assets credit risk is defined as the non-performance of contractual payment obligations on invested assets, and adverse changes in credit worthiness of invested assets including exposures to issuers or counterparties for bonds, equities, deposits and derivatives etc. Invested asset credit risk arises in all investment portfolios throughout the Company. Credit downgrade is defined to be the loss or gain from a change in an investment's credit rating agency's rating and/or an analyst's buy, sell, hold opinion. Spread risk is defined as the risk that arise from negative movement in price in a sector relative to the market resulting for example from the changes in the markets perceived view of the industry sector.

C.3.3.3 Credit risk arising from insurance operations

Insurance operations credit risk is defined as credit risk arising from carrying out daily insurance business operations. This includes loss of principal or financial reward resulting from a counterparty's failure to pay or fulfil all or part of its contractual obligations. For example, if the Company trades with an insolvent broker there is a risk that the Company will not receive all the premiums due from that broker.

Subrogated recoveries, which are derived from legal and claims department activities and are an insurance risk mitigation, are covered under the Insurance Risk Policy.

C.3.4 Application of the prudent person principle

See section C.2.4 for the application of the prudent person principle to credit risk arising from investments. The prudent person principle is not applicable to credit risk in relation to reinsurance and insurance operations.

C.3.5 Material risk concentrations

The Company is exposed to the following types of risk concentrations:

- Reinsurance counterparties
- Investment counterparties

C.3.5.1 Reinsurance counterparties

The Reinsurance Committee oversees the management of credit risk arising from the reinsurer failing to settle its liability to the Company. Company standards are set such that reinsurers that have a financial strength rating of less than 'A-' with Standard & Poor's, or a comparable rating, are removed from the Company's authorised list of approved reinsurers unless the Company's internal review discovers exceptional circumstances in favour of the reinsurer. Collateral is taken, where appropriate, to mitigate exposures to acceptable levels.

The Company's use of reinsurance is sufficiently diversified that it is not concentrated on a single reinsurer, or any single reinsurance contract. The Company regularly monitors its aggregate exposures by reinsurer group against predetermined limits, in accordance with the methodology agreed by the Board.

C.3.5.2. Investment credit risk

For material investment risks, see section C.2.5.

C.3.5.3 Off balance sheet guarantees

The Company has no reinsurance related exposure to certain off-balance sheet guarantees issued under secured Letter of Credit facilities. The Company does not consider there to be any material risk concentration.

C.3.6 Risk mitigation

The Company employs the following mitigating techniques and monitoring procedures in order to manage the different types of credit risk:

C.3.6.1 Reinsurance credit risk management

Mitigation techniques

- Approved Reinsurance Counterparties – the Board approves reinsurance counterparties based on the recommendation from the Reinsurance function which is supported by the RSA Group reinsurance process to assess and approve all reinsurance counterparties
- Approved Reinsurance Counterparties meet corporate standards – due diligence is performed, Company monitors and maintains the approved reinsurance counterparties lists as part of an ongoing risk assessment of reinsurance counterparties. Where a reinsurance counterparty credit risk metric is approached or breached, risk response actions must be affected and reported to the Board
- Appropriate Metrics – the Company has established metrics which are appropriate for quantifying reinsurance counterparty credit risk
- Contract initiation – before entering into an outward reinsurance contract a business must ensure and document that it has followed all the requirements of the Reinsurance Policy
- Risk mitigation techniques – where risk mitigation techniques, such as the acceptance of collateral, are used they shall be well understood by following appropriate processes and procedures

C.3.6.2 Investment credit risk

Mitigation techniques

- The Company maintains a low risk, high quality portfolio with exposure concentrated in bonds and cash and only limited exposure to equity and property
- Credit risk exposure is mitigated by the high-quality nature of the portfolio with more than 97% in securities rated 'AA' and above and less than 3% in sub investment grade. Limits are placed over the maximum aggregate exposure by credit ratings to ensure that the high-quality nature of investments is maintained
- Single counterparty credit risk is mitigated through having minimum exposures limits to government bonds as well as having maximum exposure limits to individual counterparties that reflect a number of criteria including counterparties' credit rating and industry

Monitoring process

- The Company reviews the investment exposure against limits delegated by the Board and report these to the Investment Committee and to the RSA Group on an ongoing basis. Separately, external fund managers monitor the investment exposures against limits stipulated within their investment management agreements. These limits are consistent with limits delegated by the Board

C.3.6.3 Insurance operations credit risk

Mitigation techniques

- Debt Reconciliations - Outstanding balances from the general ledger have to be agreed to supporting documentation and overdue payments are chased

- Completion of Due Diligence activities – Business confirms material facts about the counterparty by reviewing several elements such as Annual and Quarterly Financial information for the past three years, Financial Projections, Capital Structure, list of top ten suppliers and history of the past two fiscal years (including current year to date)
- Credit Terms are set for each counterparty - Business sets credit terms prescribed by RSA Group according to the nature and credit standing of each counterparty. These criteria and the acceptable credit terms are documented on the Insurance Operation Credit Risk policy
- Procedures for Loans and Insurance of Mortgages –Business has in place procedures that govern the credit assessment of granting of loans to counterparties and the insurance of mortgages

Monitoring process

All operations perform the following on a quarterly basis:

- Aged Debtors and Balances
- Breakdown of Debtors
- Aged Debtors Variance Analysis

C.3.7 Risk sensitivity

See section C.7 for information on Stress and Scenario Testing for all categories of material risk.

The Company is not exposed to any significant counterparty default credit risk sensitivity that is considered plausible. Historically, the Company has not had to write off any significant balances due to counterparty default. Therefore, credit risk is not included in these tests.

C.4 Liquidity risk

C.4.1 Introduction

Liquidity risk refers to the risk of loss to the Company as a result of assets not being available in a form that can immediately be converted into cash or the securing of such assets at excessive cost (whether through borrowing or overdraft arrangements for example), and therefore the consequence of not being able to pay its obligations when due.

C.4.2 Measures used to assess risk

The Company breaks down liquidity risk into three subcategories:

- Funding liquidity risk: the risk that the business may be unable to liquidate assets, secure funding and/or contingency funding arrangements, and/or of excessive and/or prohibitive clauses in such funding and/or contingency funding arrangements, and/or the withdrawal and/or curtailment of funding facilities.
- Foreign currency liquidity risk: the risk that actual and/or potential future outflows in a currency are unable to be met from likely available inflows in that currency or purchased in the foreign exchange market.
- Intra-day liquidity risk: the risk that liquidity requirements increase during a business day due to delays in settlement proceeds being received and/or problems in the workings of banking or other settlement systems.

Suitable monitoring processes are in place to assess all the above including:

- Creation and maintenance of short-term cash flow forecasts
- Use of liquidity key performance indicators to measure the proportion of assets that can be liquidated within a specified time period of 20 working days

There have been no material changes to the measures used to assess risks during 2020

C.4.3 Material risks

The Company considers that there are currently no material liquidity risks.

There have been no material changes throughout the reporting period.

C.4.4 Application of the prudent person principle

See section C.2.4 for information on the prudent person principle.

C.4.5 Material risk concentrations

The Company maintains a strong and liquid portfolio of cash and investment assets which are monitored by type and duration in order to match the Company's liabilities.

C.4.6 Risk mitigation

The Company minimises risk by operating a high quality, low risk investment strategy which matches liability duration.

The Company adheres to a liquidity policy that ensures that adequate liquid resources are maintained at all times such that liabilities can be met as they fall due.

In addition, the Company produces a range of cash flow forecasts from short-term operational plans to rolling 12 months forecasts in conjunction with the Company's core planning processes.

C.4.7 Expected profit in future premiums

The expected profits in future premiums ('EPIFP') has been calculated as the present value of future cash flows relating to premiums in respect of existing contracts that are expected to be received in the future. The EPIFP has been calculated for each homogeneous risk group. Loss-making policies have only been offset against profit-making policies within a homogeneous risk group. At the valuation date the EPIFP was DKK 128,304k.

C.4.8 Risk sensitivity

See section C.7 for information on Stress and Scenario Testing for all categories of material risk.

The Company does not currently consider liquidity risk as a material risk. This decision is reviewed on a regular basis.

C.5 Operational risk

C.5.1 Introduction

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. Operational risks are inherent in the Company operations and are typical of all enterprises. The Company's operational risk is highly correlated with the outsourcing partner's ability to operate. Thus, key risk indicators have been set to measure and monitor the Company's risk appetite towards the outsourcing partner. Potential incidents, breaches, and risks outside of appetite are reported to the CEO and consequently to the Board by the Compliance Function and the Risk Function.

C.5.2 Measures used to assess risk

Operational risk exists in almost every aspect of business within the Company, and the effective management of operational risk plays a significant role in enabling the business to meet its strategic objectives.

The Risk Management and Internal Control Policy documents both the policy requirements for the identification, measurement, management, monitoring and reporting of operational risk, as well as setting out the processes and procedures for the effective operation of the risk management system. The Risk Management System sets out the Company's approach to minimizing and/or preventing the risk of material loss, reputational damage or liability arising from the failure to comply with risk requirements with a particular focus on operational risk.

In order to facilitate identification and control, the business breaks down operational risk into four sub-categories:

- **Process risk:** the risk of direct or indirect loss resulting from inadequate or failed internal processes
- **Systems risk:** the risk of direct or indirect loss resulting from inadequate or failed infrastructure of the organisation including network, hardware, software, communications and their interfaces
- **People risk:** the risk of direct or indirect loss resulting from the deliberate or unintentional actions of employees and/or management of the business or from their inaction
- **External risk:** the risk of direct or indirect loss resulting from events outside the business control or from events that impact on an external relationship

The business functions, supported by the Risk Function, ensure that new risks are identified, which can include risks created by changes to the business strategy, and are appropriately reflected in their Risk Profiles and Risk Appetite scorecards.

A number of information sources should be used to support identification processes. These include:

- control assessments supported by testing such as validation and assurance activities
- key risk indicators supporting the risk appetite framework
- material business changes, including transformational activity
- emerging risk assessments
- external incidents and internal incidents, which are supported by root cause analyses where appropriate

Once material risks have been identified the business function update its risk profile by including the risk net of mitigation, i.e. the residual risk (the risk of an event occurring which would crystallise a loss assuming existing controls and other mitigating actions are effective) and recorded on a standardised Probability and Impact Matrix. The assessment of impact is made using both quantitative financial measures and qualitative reputational scales, with consideration to potential impacts that could be incurred should the risk arise. Probability assessments run from Very High (more likely than not to happen) to Very Low (less than once in 200 years) and are made with reference to the probability of a scenario arising that would result in these impacts being incurred. Assessments are made by the 1st line risk owner supported (and challenged) by the Risk Function.

The business function assesses all residual risks to determine if the risk is within risk appetite, and if not whether there is a plan with an owner to bring the risk within appetite within a reasonable timeframe.

Risk profiles, risk appetite scorecards and where applicable action plans are reviewed and challenged by the risk function and the Chief Executive Officer and reported to the Board.

An annual sense check compares the operational risk capital scenario assessments to the operational risks included on the risk profiles to ensure consistency and completeness of the risks assessed and the assessments themselves.

C.5.3 Material risks

Some examples of material operational risks that the Company is exposed to are as follows:

| Risk | Description |
|--|--|
| Outsourcing Partner | As the entire operation of the Company has been outsourced, a material risk of the Company is towards the outsourcing partner. The deliverables from the outsourcing partner are monitored by the CEO and reported quarterly to the Board. |
| Legal / Legislative Non-Compliance | <p>The Company incorrectly interprets law or legislation and/or erroneously excludes crucial terms & conditions (from non-insurance policy contracts) leading to minor sanctions, negative reputational consequences and/or change in business practices/decisions.</p> <p>The Company fails to comply with changes in legislation, laws, supervisory directives, market directives, accounting practices, taxation requirements, or other requirements issued by relevant authorities within prescribed time.</p> <p>Receipt of bribes / inducements to secure business/opportunities, acting in a way considered anti-competitive.</p> |
| Inappropriate Underwriting | Failure (of the Company or management) to exercise appropriate levels of oversight on sales practices being adopted by individuals or related entities authorised to represent the Company or distribute its products and services directly to the market. |
| Loss of a material reinsurance payment | Employees fail to correctly execute reinsurance (treaty) contracts (not executed at all or disputed by reinsurer) resulting in lack of cover for large exposures and failure to recover funds from a large loss. |

| | |
|---|---|
| Theft or Corruption of Data | An external party attacks the Company's computer/electronic system with the purpose of defrauding the firm, theft or corruption of data, destroying systems, etc. |
| | The Company loses or discloses customer records/personal details as a result of employee negligence or loss of mobile media devices. |
| Financial reporting and accounting errors | Inadequate financial processes that result in financial accounting and or reporting errors and misstatement of financial accounts. |
| Regulatory Breach | Regulatory breaches or failures that cause detriment to customers, clients or significant trading partners. |
| | Inadequate sanctions systems, processes or failed sanction controls. |
| Business Interruption | A disaster event causing damage or disruption to business operations, assets, utilities and third parties, including natural disaster, war, riots, terrorism, explosion, vandalism, social unrest, fire, etc. |
| | Systems (software or hardware) failure resulting in employees being unable to use critical systems to work. |
| Third Party Management | A failure to manage, monitor and assess third parties, included outsourcing arrangements, can result in poor performance or service issues impacting the customer and resulting in error/breaches. In the worst cases this can lead to business interruption, regulatory or legislative fines, financial loss or reputational damage. |

C.5.4 Application of the prudent person principle

The prudent person principle is not applicable to operational risk.

C.5.5 Material risk concentrations

Whilst there are many inter-dependencies between operational risks there are no material risk concentrations.

C.5.6 Risk mitigation

The operational risk management strategy is achieved through the following:

- Risk Management and Internal Control Policy plus supporting Business Control Policies
- Operational Risk Process and Procedures
- Risk appetite and / or risk limits and tolerance levels

The effective operation of the controls, control validation and assurance outlined in the Risk Management and Internal Control Policy and other policies are important to mitigate the risk of override at all levels, including that of management. Policies are developed to provide a consistent set of controls so that risks remain within risk appetite.

The operation of the policy framework is detailed in the Risk Management System detailed in the System of Governance. Worthy of note is the following:

- Second line review and challenge first line control and control validation activities in order to provide assurance that the controls and associated validation are designed and operating effectively and sufficiently mitigate the risk to bring within appetite
- Policies are subject to an annual review, led by the Line 1 owner and supported by the risk function. Any change is subject to review, challenge and agreement from the ORSA Committee
- Policy owners must ensure that the Minimum Requirements defined in the policies are in place across business functions to meet the requirements of the policy
- Requests for variation, risk acceptance and/or remediation plans against Group policy requirements agreed must follow the Policy Management Lifecycle

The business manages risks on an ongoing basis in line with risk appetite. The business clearly documents the management and / or mitigation of the risk exposure through Risk Avoidance, Risk Reduction, Risk Transfer or Risk Acceptance. Where the risk exposure is judged to be unacceptable relative to risk appetite, actions must be taken to mitigate and / or manage the risk.

In managing and/or mitigating risk, the following four areas are considered:

- Risk Avoidance, defined as not engaging in the activity that gives rise to the risk exposure. This may include a change in the scope of activities that present the risk exposure
- Risk Reduction, defined as a reduction in the probability and / or impact of the risk exposure. This would be achieved by either:
 - Implementing new or enhancing existing controls or
 - Transferring the business activity, for example to an outsourced provider
- Risk Transfer, defined as the movement of the risk exposure to another party who is more willing to bear the impact, for example through an insurance arrangement. Risk Transfer must be assessed and referenced to the risk appetite, the type of risk, the scale of the potential impact and/or costs and exclusions.
- Risk Acceptance, defined as an agreement by the business to retain and manage the risk exposure, for example where no mitigation is available to mitigate the risk or the cost of mitigation is deemed to be excessive in relation to the risk mitigation benefit.

Action plans are developed by the functional business teams where needed to bring risks back within appetite, with action plans being reviewed and challenged. Action plans include assigned owners, actions to be followed and delivery dates.

The business functions, supported by the Risk Function, will:

- review the reports presented to the Chief Executive Officer and consider if any of the control weaknesses reported need to be reflected as residual risks out of appetite on the risk profiles reported to the Board quarterly

- review the risk incident reports to assess trends and highlight any potential breaches of operational risk appetite
- consider the impact of any major strategic or structural change within the organization or the business environment on the risk profiles
- consider the impact of any emerging risk reviews, scenario tests or other deep dives on the risk profiles

The business maintain and report operational risks assessments in the Risk Profile to evidence regular monitoring and reporting against risk appetite. As a minimum, risk reporting provides sufficient data to:

- inform risk exposure by key risks and control indicators
- describe the impacts, including regulatory breaches, non-compliance with policies and overdue audit actions
- monitor action plans that include improvements to the control environment
- identify systemic operational risks
- identify emerging risks
- monitor and report material operational risk losses and near misses

C.5.7 Risk sensitivity

See section C.7 for information on Stress and Scenario Testing for all categories of material risk.

C.6 Other material risks

C.6.1 Other material risks faced

The Company is not exposed to any other material risks.

C.7 Any other information

Stress and scenario testing

Once a year, the Company performs a stress and scenario testing exercise aiming at quantifying the impact of several scenarios on own funds, including a reverse stress test, agreed with the senior management. The exercise is led by the Risk Function with input from other functions.

The stress and scenario testing activities cover all material risk classes to which the Company has an exposure, with the purpose of evaluating the Company's vulnerabilities to exceptional but plausible events. It is an opportunity to demonstrate that solid risk management processes are in place that would allow the Company to perform under mild and extreme strains on the existing conditions.

The scenarios and process to be followed for quantifying their impacts are reviewed and approved by the senior management, along with possible mitigating actions. Furthermore, the results of the exercise are reported to the Board.

In 2020, the key scenarios investigated related to climate change (underwriting and assets), macroeconomic, operational (including cyber risks) and regulation. Similarly, a reverse stress test was conducted. The exercise lead to the conclusion that none of the scenarios considered for reverse stress test lead singlehandedly to a breach of the SCR, while reverse stress test in total aims to breach the SCR per definition.

D. Valuation for Solvency Purposes

In this section

Solvency II Balance sheet

D.1 Assets

D.2 Technical provisions

D.3 Other liabilities

D.4 Alternative methods for valuation

D.5 Any other information

This section sets out the basis of preparation and assumptions used in the valuation under SII of the assets, technical provisions and other liabilities of for each material class. SII requires assets and liabilities to be valued on a basis that reflects their fair value (“economic valuation”) with the exception that liabilities should not be adjusted to take account of changes in an insurer’s own credit standing.

The valuation of assets and liabilities for SII begins with statutory values and adjusts these for specific differences between SII and statutory. Where there are such differences between the SII and statutory bases of valuation, these are described in Sections D.1 – D.4. For assets and liabilities where valuation is carried out on the same basis under statutory and SII, a description of the basis of preparation can be found in the accounting policies section and notes to the Annual Report and Accounts.

Solvency II balance sheet

The table below shows the IFRS financial statements values, compared to the SII balance sheet. Adjustments made between IFRS and SII are classified into two categories:

- Reclassifications of the IFRS balance sheet into SII categories. These are principally of three types: reclassification of financial instruments, items classified as held for sale and movement from line-by-line consolidation to adjusted equity method for certain subsidiaries. These adjustments are required for SII presentation purposes only and do not result in valuation differences.
- Revaluation adjustments, where IFRS valuation techniques are not considered to be consistent with SII requirements

| | Statutory accounts value DKK K | Reclassifica tion DKK K | SII valuation adjustments DKK K | Solvency II value DKK K |
|---|---|-------------------------------|---------------------------------------|-------------------------------|
| Investments (other than assets held for index-linked and unit-linked contracts) | 1,594,963 | 7,564 | | 1,602,527 |
| <i>Government Bonds</i> | | 87,255 | | 87,255 |
| <i>Government guaranteed bonds</i> | 1,592,347 | -79,691 | | 1,512,656 |
| <i>Collective Investments Undertakings</i> | 2,616 | | | 2,616 |
| Reinsurance recoverables | 6,224 | -9,501 | | (3,277) |
| Insurance and reinsurance receivables | 2,819 | | | 2,819 |
| Cash and cash equivalents | 14,350 | | | 14,350 |
| Any other assets, not elsewhere shown | 128,982 | -128,280 | | 702 |
| Total assets | 1,747,338 | -130,217 | - | 1,617,121 |
| Technical provisions | 529,751 | -130,213 | -97,237 | 302,301 |
| Provisions other than technical provisions | 119 | | | 119 |
| Deferred tax liabilities | - | | 21,263 | 21,263 |
| Insurance and intermediary payables | 2,143 | | | 2,143 |
| Payables (trade, not insurance) | 630,059 | -39,273 | | 590,786 |
| Any other liabilities, not elsewhere shown | 2,596 | 39,269 | | 41,865 |
| Total liabilities | 1,164,668 | -130,217 | -75,974 | 958,477 |
| Excess of assets over liabilities | 582,670 | - | 75,974 | 658,644 |

D.1 Assets

D.1.1 Valuation of assets

The assets of the Company are valued in accordance with Article 75 of the Solvency II Directive, related articles of the Delegated Act, i.e. Solvency II Delegated Regulation 2015/35 and the guidelines issued by EIOPA on the valuation of assets and liabilities other than technical provision.

The following paragraphs describe, for each material class of assets, the bases, methods and main assumptions used in valuing those assets for Solvency II purposes and an explanation of any material differences from the bases, methods and main assumptions used for valuing these in the financial statements.

The valuation methods and assumptions for assets can be found below.

Overview

Solvency II requires assets and liabilities to be valued on a basis that reflects their fair value, with the exception that liabilities should not be adjusted to take account of changes in an insurer's own credit standing.

The Company's financial information is prepared using the recognition and measurement bases required in the Danish Financial Business Act, including the Danish FSA's Executive Orders no. 937 of 27 July 2015, no. 688 of 1 June 2016 and no. 1442 of 3 December 2018 on Financial Reports for Insurance Companies and Lateral Pension Funds (Nationwide Occupational Pension Funds). Therefore, the valuation of assets and liabilities for Solvency II purposes begins with the values from the financial statements and adjusts these for specific differences in valuation between Danish GAAP and Solvency II. The adjustments made are classified into two broad categories:

- Reclassifications of the Danish GAAP balance sheet items into the appropriate Solvency II categories
- Revaluation adjustments for areas where the Danish GAAP valuation techniques are not considered to be consistent with Solvency II requirements

For further details of the accounting policies adopted for the purposes of preparing statutory accounts, see the accounting policies section of the financial statements of the Company.

| Abbreviation | Meaning |
|--------------|--|
| DA | Delegated Acts, i.e. Solvency II Delegated Regulation 2015/35 (as amended) |
| QRT LOG | Guidance as extracted from Solvency II ITS on reporting – Regulation 2015/2450 and Solvency II ITS on public disclosure – Regulation 2015/2452 |
| GL Valuation | EIOPA-BoS-15/113 EN Final Report on Guidelines on recognition and valuation of assets and liabilities other than technical provisions |

Deferred Tax Assets and Liabilities

| Solvency II Guidance | Solvency II Reference | Valuation methods and assumptions |
|--|---|---|
| <p>Insurers should recognise and value deferred tax balances in relation to all assets and liabilities that are recognised for solvency or tax purposes.</p> <p>Deferred tax balances (other than in respect of the carry forward of unused tax credits and unused tax losses) shall be determined by reference to the Solvency II balance sheet.</p> <p>Only a positive value shall only be ascribed to deferred tax assets where it is probable that future taxable profits will lead to the realisation of that deferred tax asset. This assessment should take into account any time limits that apply to the carry forward of unused tax losses or credits.</p> <p>EIOPA's Final Report on Guidelines on recognition and valuation of assets and liabilities other than technical provisions indicates that the measurement principles of IAS 12 (as applied to the temporary difference between Solvency II values and the tax values) are consistent with Solvency II's requirements. A corollary of this is that, consistent with IAS 12, deferred tax balances shall not be discounted.</p> | <p>DA Art 15</p> <p>GL Valuation (Final Report) – Table</p> | <p>The valuation methods for deferred tax balances is the same under Danish GAAP and Solvency II. Deferred tax is provided in full using the liability method on temporary differences arising between the tax bases of assets and liabilities and the carrying amounts on the Solvency II balance sheet.</p> <p>However, if the deferred tax arises from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting, nor taxable profit or loss, it is not accounted for in the Danish GAAP balance sheet and so will not be accounted for in the Solvency II balance sheet.</p> <p>Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted, by the end of the reporting period and are expected to apply when the related deferred tax asset is realised or the related deferred tax liability is settled.</p> <p>Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which unused tax losses and temporary differences can be utilised.</p> <p>In preparation of the Solvency II balance sheet, there are a number of adjustments to move from a Danish GAAP to a Solvency II valuation basis. These adjustments are considered in assessing the temporary differences upon which the deferred taxes are derived. The key valuation adjustments which impact the estimate of deferred taxes for Solvency II purposes are:</p> <ul style="list-style-type: none"> • elimination of goodwill and intangible assets • adjustments to technical provisions valuation • recognition of contingent liabilities • revaluation of plant and equipment (for own use) |
| | | <p>See Section D.1.2 for more information on deferred tax.</p> |

Financial Assets

| Solvency II Guidance | Solvency II Reference | Valuation methods and assumptions |
|--|--|--|
| <p>Financial assets shall not be valued at cost or amortised cost.</p> <p>EIOPA's Final Report on Guidelines on recognition and valuation of assets and liabilities other than technical provisions indicates that all financial assets shall be measured at fair value. Whilst reinsurance recoverable in respect of unsettled claims are subject to the rules regarding technical provisions (see next section), payments due in relation to settled insurance claims should not be measured under those rules and so would fall to be treated as financial assets. Only future premiums which fall due after the valuation date are subject to the rules regarding technical provisions; therefore, any premium debts due would fall to be treated as financial assets although EIOPA has previously indicated that the risk of non-payment by the policyholder can be ignored if that will result in waiving the insurance cover</p> | <p>DA Art 10</p> <p>DA Art 16</p> <p>Balance sheet QRT LOG (S.02.01)</p> | <p>Financial assets are valued at fair value for both Danish GAAP and Solvency II balance sheet valuation purposes. The methods and assumptions used by the Company in estimating the fair value of financial assets are:</p> <ul style="list-style-type: none"> • Bonds: fair values are generally based upon quoted market prices. Where market prices are not readily available, fair values are estimated using either values obtained from quoted market prices of comparable securities or estimated by discounting expected future cash flows using a current market rate applicable to the yield, credit quality and maturity of the investment. For Solvency II reporting accrued interest is added to the relevant instruments and reclassified into the various Solvency II balance sheet categories • Equity securities: fair values are based upon quoted market prices. For Solvency II reporting the equity securities are reclassified into the various Solvency II balance sheet categories • Derivatives: fair values are generally based upon quoted market prices. Positive values are reported as assets and negative values reported as liabilities in the Solvency II balance sheet • Collective investment schemes: quoted market prices are used where available, else funds are valued using data from third-party administrators or, in the case of loan funds, fund manager data. All funds are reviewed regularly for signs of underlying impairment. As such, it is considered that all values approximate to fair values • Cash and deposits, loans and mortgages, receivables and other assets: carrying amounts approximate to fair values as these are generally short-term balances. For Solvency II reporting, except for cash in hand, accrued interest is added to the relevant instruments and balances are reclassified into the various categories as per Solvency II definitions. For prepayments, the approach is to start with the Danish GAAP balance and make adjustments to derecognise any prepaid expenses that cannot be converted into cash. Premium debtors and recoveries falling due for payment after the balance sheet date are reclassified from receivables to technical provisions. See Section D.2 for more details |

Reinsurance recoverable

The sub-categories in the Solvency II balance sheet of reinsurers' share of technical provisions mirrors those of the gross balances and the same mapping of Solvency II lines of business is to be used. See Section D.2 for more details.

D.1.2 Analysis of deferred tax

An analysis of deferred tax on a SII basis is detailed below:

| | Asset DKK K | Liability DKK K |
|---------------------------------|----------------|--------------------|
| Deferred tax assets/liabilities | - | 21,263 |

The following table sets out the deferred tax assets and liabilities recognised by the Company, split by main categories:

| | DKK K |
|--|-----------------|
| Other temporary differences | 224 |
| Technical provisions | (21,487) |
| Net deferred tax position at 31 December | (21,263) |

Deferred tax in the Denmark is based on a rate of 22% as of 31 December 2020.

The closing procedure for providing Solvency II deferred tax figures for the Company utilises a walkthrough bridge from the figures reported on a Danish GAAP basis in the Company's Annual Report. A tax analysis is performed of valuation adjustments made to the statutory accounts balances in arriving at the Solvency II balance sheet. Where these adjustments give rise to a temporary difference under Danish GAAP, a deferred tax asset or liability is recognised in accordance with Danish GAAP principles, subject to recognition criteria outlined above.

D.1.3 Estimation Techniques, Risks, and Uncertainties relating to Assets and Liabilities

The preparation of the Solvency II balance sheet requires the Company to exercise judgements in the use of estimates and assumptions several key areas.

The most significant of these are as follows:

Recognition and Valuation of Deferred Tax Assets

Deferred tax assets have been recognised on the basis that future taxable profits will be available against which these deferred tax assets can be utilised. The evidence for the future taxable profits is a forecast consistent with the three-year operational plan prepared by the relevant businesses, which are subject to internal review and challenge by senior management and the Board. Where relevant, the forecast includes extrapolations of the operational plan using assumptions consistent with those used in the plans.

Financial Assets and Liabilities

Fair value is used to value a number of assets and represents market value at the reporting date.

Cash and Cash Equivalents, Loans and Receivables

For cash, loans and receivables, commercial paper, other assets, liabilities and accruals, their carrying amounts are considered to be as approximate fair values on the basis that these are short term assets.

D.2 Technical provisions

D.2.1 Valuation and comparison of Danish GAAP to SII

Below table shows for the material line of business the Solvency II technical provisions split upon a best estimate and the associated risk margin. Table is net and includes both claims and premium provision. Technical provisions for Danish Statutory Accounts equal the Solvency II technical provisions plus a profit margin.

It is noted that we as from this year apply the volatility adjusted yield curve. Impact as at current balance is a reduction of the net TP with 2 mDKK.

| | Best estimate DKK k | Risk Margin DKK k | Total TPs DKK k |
|---|---|----------------------|--------------------|
| Direct Business | Income protection insurance | 156,387 | 168,524 |
| | Motor vehicle liability insurance | 64,075 | 68,622 |
| | Miscellaneous financial loss | 11,615 | 12,162 |
| | Other motor insurance | (22,577) | (15,125) |
| | Fire and other damage to property insurance | 21,037 | 34,739 |
| | General liability insurance | 19,118 | 19,885 |
| | Workmen's compensation insurance | 7,965 | 8,296 |
| Immaterial lines of business | 6,864 | 1,612 | 8,476 |
| Total Solvency II technical provisions | | | 305,578 |
| Total profit margin | | | 97,423 |

The Other motor insurance in the above table is negative. The reason is that renewals in the Company are almost all 1 January. Under the recognition principle all is considered as being legally bound as at 31 December, therefore a full year of premium is included. Since the business is profitable (positive profit margin), a negative Solvency II premium provision is seen. And due to the short-tailed nature of the business, the claims provision is small, therefore the overall Solvency II best estimate becomes negative.

Note that we now use the volatility adjusted yield curves leading to an approximately 2 mDKK higher level of discount.

D.2.2 Basis of preparation of technical provisions

Under Solvency II, the technical provisions are made up of:

Claims provision + Premium provision + Risk margin

The claims provision is the discounted best estimate of all future cash flows (claim payments, expenses and future premiums) relating to claim events prior to the valuation date.

The premium provision is the discounted best estimate of all future cash flows (claim payments, expenses and future premiums due) relating to future exposure arising from policies that the Company has written at the valuation date.

The risk margin is calculated as per the Solvency II Directive, as the cost of capital required to hold future SCRs over the life of the technical provisions as they run off.

The valuation of the best estimate for claims provisions and for premium provisions are carried out separately. Claims and premium provisions are calculated gross of outwards reinsurance and for reinsurance. The risk margin is only calculated net of reinsurance.

D.2.2.1 Bases, methods and assumptions used for valuation

The claims provision comprises the estimated cost of claims incurred but not paid at the end of the reporting period. The provisions are calculated by valuing future cash flows including claims payments, related expenses, salvage and subrogation recoveries and reinsurance transactions. The provision is determined using the best information available of claims settlement patterns, forecast inflation and estimated claims settlement amounts.

Future claims cash flows include an allowance for Events Not in Data (ENID).

The premium provision comprises estimated cost of future claims and associated expenses for unearned business and bound but not incepted business on a best estimate basis, offset by effect of lapses and future premiums due. The cash flows also include profit commissions and the costs of policy administration.

All expenses that would be incurred in running-off the existing business, including a share of the relevant overhead expenses are taken into account. This share is assessed on the basis that the Company continues to write new business. The expense provision includes items such as investment expenses that would not be covered under the IFRS basis.

Future claims cash flows are generally determined by considering how past claims payments have materialised, with separate explicit cash flows determined for gross of reinsurance and net of reinsurance. The provisions for claims relating to annuities arising from general insurance business are also determined using recognised actuarial methods.

All cash flows are discounted for the time value of money using yield curves including volatility adjustments prescribed by EIOPA.

The risk margin is calculated by determining the present value of the cost of holding the SCR necessary to support the Company's insurance obligations over their lifetime. This approach is intended to reflect the costs incurred by a notional (re)insurer, the reference undertaking, of holding the capital to accept a transfer of liabilities.

D.2.2.2 Significant simplified methods

For the premium provision, under the legal obligation basis of Solvency II, all existing bound contracts are to be valued, whether the contracts have incepted or not. This includes future premium and claims cash flows for policies not yet incepted by the valuation date, but already forming part of contractual obligations (Bound But Not Incepted (BBNI) business). Disregarding this part of the policies, would be considered too prudent, wherefore the associated volume has to be estimated. Due to limitations of data available, we currently as a simplifying assumption assume that the volume corresponds to the first month of written business according to the Operational Plan.

For the risk margin, the future Reference Undertaking SCRs are estimated by considering the remaining claims at each future valuation date. As claims run off, a higher proportion of long tail, e.g. liability, claims remain which require a proportionally higher level of capital to support them. The method used reflects the proportionally increasing levels of capital required in the future.

D.2.3 Uncertainties and contingencies

There is an inherent uncertainty in estimating claims provisions at the end of the reporting period for the eventual outcome of outstanding notified claims as well as estimating the number and value of claims that are still to be notified.

Major uncertainties include the possibility of future legislative change having retrospective effect on open claims; changes in claims settlement procedures potentially leading to future claims payment patterns differing from historical experience; the

possibility of new types of claim, such as disease claims, emerging from business written several years ago; general uncertainty in the claims environment; the emergence of latent exposures such as asbestos; the outcome of litigation on claims received; and unanticipated changes in claims inflation.

There is also increased uncertainty in premium provisions as ultimate claims costs need to be estimated for future events.

D.2.4 Use of adjustments and transitionals

In valuing the technical provisions, none of the following have been applied:

- the matching adjustment referred to in Article 77b of Directive 2009/138/EC
- the transitional risk-free interest rate-term structure referred to in Article 308c of Directive 2009/138/EC
- the transitional deduction referred to in Article 308d of Directive 2009/138/EC

The company does however this year apply

- the volatility adjustment referred to in Article 77d of Directive 2009/138/EC

D.2.5 Recoverables from reinsurance contracts and SPVs

Reinsurance arrangements in place include proportional, excess of loss, catastrophe and more tailored covers. Parts of the covers are shared within the RSA Group. An example of this is the natural catastrophe excess of loss cover.

D.2.6 Changes in assumptions

The Company routinely review the assumptions supporting the calculation of technical provisions to make sure that trends in underlying data is reflected in a timely manner. During 2020, no significant changes in assumptions have been made.

D.3 Other liabilities

D.3.1. Valuation of other liabilities

The liabilities of the Company are valued in accordance with Article 75 of the Solvency II Directive, related articles of the Delegated Act, i.e. Solvency II Delegated Regulation 2015/35 and the guidelines issued by EIOPA on the valuation of assets and liabilities other than technical provision.

Set out on the following pages, is a description for each material class of liabilities (other than technical provisions) of the bases, methods and main assumptions used for valuation for Solvency II purposes and an explanation of any material differences from the bases, methods and main assumptions used for valuing those liabilities in the financial statements.

See Section D.1.1 for an overview.

Financial Liabilities

| Solvency II Guidance | Solvency II Reference | Valuation methods and assumptions |
|--|-----------------------|--|
| Insurance and reinsurance undertakings shall value financial liabilities, as referred to in international accounting standards adopted by the Commission in accordance with Regulation (EC) No 1606/2002, in accordance with Article 9 of this Regulation upon initial recognition. There shall be no subsequent adjustment to take account of the change in own credit standing of the insurance or reinsurance undertaking after initial recognition | DA Art 14(1) | <p>Financial liabilities are valued at fair value for both Danish GAAP and Solvency II balance sheet valuation purposes. The methods and assumptions used by the Company in estimating the fair value of financial liabilities are:</p> <ul style="list-style-type: none">• Notes, bonds, loans payable and loan capital: fair values are determined by reference to quoted market prices or estimated using discounted cash flow calculations based upon prevailing market rates• For borrowings that carry a variable rate of interest (other than loan capital), carrying values approximate to fair values• Other liabilities and accruals: carrying amounts approximate to fair values as they are short term liabilities <p>Upon subsequent measurement of financial liabilities, any changes in own credit risk are not reflected in the fair value.</p> <p>Under Danish GAAP, debtors and payables relating to future premiums are included within insurance and reinsurance debtors and payables; However, under Solvency II, future premiums are included within Solvency II technical provisions as future cash flows.</p> <p>As per the principle of correspondence, the only insurance business to be recognised as ceded is bound business, i.e. business recognised within gross technical provisions. Reinsurance payables are adjusted for amounts that do not meet this criterion, unless the cost is sunk, in which case it must be recognised in full.</p> |

Contingent Liabilities

| Solvency II Guidance | Solvency II Reference | Valuation methods and assumptions |
|---|--------------------------------------|--|
| <p>Insurers should recognise material contingencies as liabilities. Contingent liabilities are material if information about the current or potential size or nature of those liabilities could influence the decision-making or judgement of the intended user of that information (including supervisors).</p> <p>Such liabilities should be valued at the expected present value of future cash flows required to settle the contingent liability, discounted at the basic risk-free interest rate term structure.</p> | <p>DA Art 11</p> <p>DA Art 14(2)</p> | <p>Material contingent liabilities are recorded on the Solvency II balance sheet and are valued at the expected present value of future cash flows to settle the obligation liability over the lifetime of that contingent liability, using the relevant risk-free interest rate term structure. This basically means multiplying a possible outcome by its probability and discounting the result using the risk-free interest rate.</p> <p>This applies to non-insurance risks only, as insurance risks are already captured by the best estimate component of technical provisions.</p> <p>Contingent liabilities acquired in a business combination are valued on a basis consistent with that used for Danish GAAP reporting.</p> |

Provisions other than technical provisions

| Solvency II Guidance | Solvency II Reference | Valuation methods and assumptions |
|---|--|--|
| <p>EIOPA's Final Report on Guidelines on recognition and valuation of assets and liabilities other than technical provisions indicates that, in accordance with the principles in IAS 37, provisions are recognised where there is a present obligation as a result of a past event which will probably give rise to an outflow of resources and which can be measured reliably. Provisions are valued at a best estimate of the expenditure required to settle the present obligation at the balance sheet date.</p> | <p>DA Art 9</p> <p>GL Valuation (Final Report) - Table</p> | <p>The valuation methods and assumptions for provisions is the same under Danish GAAP and Solvency II.</p> <p>Provisions are recognised when there is a present legal or constructive, obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.</p> |

See section D.1.3 for details of estimation techniques, risks, and uncertainties relating to assets and liabilities; section D.1.1 for an explanation of the bases, methods and assumptions used for the valuation of deferred tax assets and liabilities; and section D.1.2 for deferred tax analysis.

D.3.2 Liabilities for employee benefits including defined benefit plan assets

Nothing to report.

D.4 Alternative methods for valuation

Assets and liabilities valued using alternative valuation methods include certain debt and equity securities and collective investment schemes.

Most of these instruments are given this classification because the markets on which they trade are not considered to be sufficiently active to qualify as active for the purpose of this disclosure. Despite this, the valuation of these assets is still based on quoted prices available from an exchange, dealer, broker, pricing service or other third party and as such these prices are considered reliable indicators of the fair value of the instruments.

Instruments disclosed as valued under alternative valuation methods for which quoted market prices are not available are valued using observable inputs as far as possible. These instruments are generally illiquid and include illiquid credit instruments. As such they are rarely traded, but experience from disposals when they do occur suggests that the valuation methods used are reasonably reliable in estimating the fair value of the instruments.

There is no difference between the bases, methods and assumptions used when valuing these instruments for SII purposes and those used for DK GAAP reporting. See Section D.1.3 for a description of the valuation techniques used and how they are assessed.

D.5 Any other information

Nothing to report.

E. Capital Management

This section of the report describes how the Company manages own funds in terms of:

- Information on the objectives, policies and processes employed by the Company for managing its own funds
- The amount of the Company's Solvency Capital Requirement (SCR) and Minimum Capital Requirement (MCR), including any non-compliance with those measures
- The scope of the Internal Model used by the Company for its SCR calculation

E.1 Own funds

E.1.1 Objectives, policies, processes and material changes

Policies and processes for managing own funds

The primary objective of the Capital Management function (performed on behalf of the Company by Codan Forsikring A/S) is to ensure that the Company has sufficient capital to meet its obligations. This is achieved by optimising the balance between return and risk, whilst maintaining economic and regulatory capital in accordance with risk appetite.

Capital Management's role and responsibility is to govern, monitor and oversee capital resources ensuring that these are within the risk appetite of the Company and meet appropriate regulatory/accounting rules and guidelines. This includes the calculation, estimation and forecasting of capital resources and capital requirements such as available and eligible own funds.

The Company manages capital and solvency through a governance framework including methodology validation, monitoring and reporting processes.

Business planning

The Company operates a three-year time horizon for business planning. Plans are reviewed and challenged at Board level.

Material changes over the reporting period

No material changes to the objectives, policies or processes for managing own funds were made over the period.

E.1.2 Structure, amount and quality of own funds

Classification and eligibility of capital

The Company's own funds are classified per Solvency II requirements as follows:

| Solvency II Tier | Capital Item |
|-------------------|--|
| Tier 1 | Ordinary share capital Reconciliation reserve |
| Tier 1 Restricted | n/a |
| Tier 2 | n/a |
| Tier 3 | n/a |

Tier 1 own funds include the SII reconciliation reserve, the key elements of which are as follows:

- Excess of assets over liabilities as presented in the SII balance sheet
- A deduction for foreseeable dividends and distributions in relation to 2020 interim and final payments
- A deduction for amounts already included in Tier 1 own funds, including ordinary share capital

Capital composition

The Company's capital structure per 31 December 2020 by tier is as below:

| | | 2020 DKK K | 2019 DKK K |
|---------------------|------------------------------|----------------|----------------|
| Tier 1 Unrestricted | Share capital | 1,000 | 1,000 |
| | Reconciliation reserve | 657,644 | 553,414 |
| | | 658,644 | 554,414 |
| Tier 1 Restricted | n/a | - | - |
| Tier 2 | n/a | - | - |
| Tier 3 | n/a | - | - |
| | Total Basic Own Funds | 658,644 | 554,414 |

Tier 1 movements

Core Tier 1 basic own funds increased to DKK 658,644k in the period, mainly driven by profit from the operation.

E.1.3 Eligible own funds to cover the SCR

Basic own funds to eligible own funds

Solvency II requires that basic own funds are first considered against availability rules, and then subjected to eligibility criteria based on both the SCR and capital structure. Eligible own funds are considered available to cover the SCR. The Company's basic own funds to eligible own funds reconciliation is shown below:

| | Basic Own Funds DKK K | Availability restrictions DKK K | Available Own Funds DKK K | Eligibility restrictions DKK K | Eligible Own Funds DKK K |
|--------------|--------------------------|---------------------------------------|------------------------------|-----------------------------------|-----------------------------|
| Tier 1 | 658,644 | - | 658,644 | - | 658,644 |
| Total | 658,644 | - | 658,644 | - | 658,644 |

| | |
|--------------|---------|
| SCR | 215,415 |
| Surplus | 443,229 |
| SCR Coverage | 306% |

Non-available Capital

The Company has no non-available capital to meet the SCR.

Ineligible Capital

The Company has no ineligible capital to meet the SCR.

E.1.4 Eligible own funds to cover the MCR

Solvency II requires that basic own funds are first considered against availability rules, and then subjected to eligibility criteria based on both the MCR and capital structure. Eligible own funds are considered available to cover the MCR. The Company's basic own funds to eligible own funds reconciliation for the MCR is shown below:

| | Basic Own Funds DKK K | Availability restrictions DKK K | Available Own Funds DKK K | Eligibility restrictions DKK K | Eligible Own Funds DKK K |
|--------------|--------------------------|---------------------------------------|------------------------------|-----------------------------------|-----------------------------|
| Tier 1 | 658,644 | - | 658,644 | - | 658,644 |
| Total | 658,644 | - | 658,644 | - | 658,644 |

| | |
|--------------|---------|
| MCR | 96,937 |
| Surplus | 561,707 |
| MCR Coverage | 679% |

Non-available Capital

The Company has no non-available capital to meet the MCR.

Ineligible Capital

The Company has no ineligible capital to meet the MCR.

E.1.5 Differences between equity and net assets

Comparison between Danish GAAP Equity and Solvency II Basic Own Funds

For the material differences between the Company's published Danish GAAP equity, and its excess of assets over liabilities refer to section D. There are no adjustments in arriving at the basic own funds from the excess of assets over liabilities. Danish GAAP equity at year end 2020 was DKK 582,670k, and Solvency II basic own funds were DKK 658,644k.

E.1.6 Transitional arrangements

The Company does not have own funds that are subject to the transitional arrangement referred to in Article 308b(9) and 308b(10) in the Solvency II Directive.

E.1.7 Ancillary own funds

The Company does not have ancillary own funds.

E.1.8 Deductions and restrictions

See sections E1.3 and E1.4 for a description of the nature and amount of restrictions on own funds.

E.2 Solvency capital requirement and minimum capital requirement

The internal model used to calculate the Company's SCR was approved on RSA Group level. In order for the Company to continue to use the internal model post the end of the Brexit transition period 1 January 2021, the Company would be required to submit an application for usage of an internal model. The Company has chosen not to do so and therefore, from 1 January 2021, the Company has reverted to use the standard formula for calculation of the SCR. This report covers the reporting year 2020 where the Company had an approved internal model for calculation of the SCR.

E.2.1 SCR and MCR

At 31 December 2020, the Company's SCR was DKK 215,415k and the MCR was DKK 96,937k.

E.2.2 SCR split by risk

The Company's Internal Model received approval for use in December 2015. Further, Major Model Changes to the Internal Model were approved by the regulators in December 2019. An analysis of the Internal Model SCR by risk category is provided in QRT S.25.03.

E.2.3 Standard formula simplifications

Standard Formula simplifications were not applicable as an internal model was used.

E.2.4 Standard formula undertaking specific parameters

Standard Formula Undertaking Specific Parameters were not applicable as an internal model was used.

E.2.5 Capital add-on and undertaking specific parameters non-disclosure

No capital add-ons were in place during the reporting period. Undertaking Specific Parameters were not applicable as an internal model was used.

E.2.6 Capital add-on and undertaking specific parameters impact

No capital add-ons were in place during the reporting period. Undertaking Specific Parameters are not applicable as an internal model was used.

E.2.7 MCR calculation inputs

Solvency II has two capital measures for each entity:

- Solvency Capital Requirement – if a company breaches the SCR then it needs to enter into discussions with the supervisor to remediate this position

- Minimum Capital Requirement – if a company breaches the MCR then if a company is unable to execute a remediation plan the regulator is obliged to remove its ability to write business

E.2.8 Movements in the SCR and MCR

Movements in the SCR

The SCR has increased from year-end 2019 (DKK 191,977k) to year-end 2020 (DKK 215,415k). The increase is driven by a change in the allowance of loss absorbing capacity of deferred taxes within the SCR. There has been a decrease to the SCR due to improved premium provision modelling, but this has been offset by additional insurance exposure projected in 2021 from the partnership with Nykredit, Lokale Pengeinstitutter and Spar Nord.

Movements in the MCR

The MCR follows the movement in the SCR and has also increased from year-end 2019 (DKK 86,390k) to year-end 2020 (DKK 96,937k).

E.3 Use of the duration-based equity risk sub-module in the calculation of the SCR

The duration-based equity risk sub-module is not used.

E.4 Differences between the standard formula and any internal model used

E.4.1 Internal model purposes

The Internal Model helped ensure the Company operating effectively, and within regulatory requirements on a continuous basis. The model outputs provided the capital information used in: the calculations of the SCR; the ORSA; reporting and disclosure; and other business applications.

E.4.2 Internal model scope

Scope (by Business Unit)

All the Company's lines of businesses were included in the scope of the Internal Model.

Scope (by Risk Type)

The modelled SCR was split into the following sub-modules:

- Underwriting risk
- Catastrophe risk
- Reserve risk
- Market risk
- Credit risk
- Operational risk
- Other drivers

E.4.3 Partial internal model integration

A full internal model was used so there was no partial internal model integration into the standard formula.

E.4.4 Internal model calculation methods

Overview of model methodology

The Company employed an internal model to determine its SCR. The SCR assumed that one year of new business was written as a going concern and calculated the movement in basic own funds over one year.

A model run consisted of 100,000 simulations, each representing a different possible outcome of the future cash flows and balance sheets. For each projected balance sheet, the difference between the opening available net assets and the projected net assets represented the capital required to meet the outflows and value movements in the period up to that projected balance sheet.

Operational risk was modelled separately, and the resulting capital requirement added to that produced by the main model run to arrive at the overall assessment of capital required.

E.4.5 Differences in methodologies and assumptions

Differences in standard formula and internal model structure

The Company's Internal Model was structured in a different way from the Standard Formula. In the Standard Formula, different risk types are considered on a standalone basis and explicit correlations are applied to each risk factor to derive an overall capital requirement. The Internal Model was a fully integrated capital model where individual variables interacted to create a distribution of outcomes by simulating future cash flows to perform an annual valuation of each item on the balance sheet.

Explanation by risk module used in internal model and standard formula

Insurance risk – underwriting, reserving and catastrophe

The Internal Model splits insurance risk into three categories:

- Underwriting
- Reserving
- Catastrophe

Non-life, health and life risks were all considered jointly within each category (although non-life is the material component).

The Standard Formula splits into three for non-life and non-life like health:

- Premium and reserve
- Catastrophe
- Lapse (immaterial for the Company as a non-life insurer)

In broad terms, Standard Formula premium and reserve risk for non-life and health could be compared to Internal Model underwriting and reserve risk (although the Standard Formula combines the two).

Catastrophe could similarly be compared.

This approach was crude as it ignored the fundamentally different approach to diversification between the two methods.

Life risks are immaterial for the Company for both the Internal Model and Standard Formula, given the nature of the Company's operations.

Market and currency risk

Market risk was lower under the Internal Model than the Standard Formula. Broadly, the Standard Formula uses pre-determined charges, whereas the Internal Model used projected returns on the Company's assets based on a range of economic simulations.

Counterparty risk

Counterparty risk was lower under the Internal Model than the Standard Formula. The Internal Model simulated defaults based on S&P credit ratings and the Company's own reinsurance data for cash and reinsurance exposures. Policyholder, intermediary

and other asset defaults were modelled based on historic default data, which was lower than that implied by the Standard Formula 15% and 90% default rates.

Operational risk and other items

Operational risk was lower under the Internal Model than the Standard Formula. The Internal Model used scenarios that were designed using expert judgement from subject matter experts using the Company's real experience and third-party data. As a result, the Internal Model was more closely aligned to real world experience than a function of technical provisions as used in the Standard Formula.

E.4.6 Risk measure and time period

The SCR represents the capital required to ensure that the Company will have sufficient amount of eligible capital resources to be able to meet its obligations when the business encounters adverse conditions, subject to a confidence level of 99.5% over a one-year period and assuming the business remains a going concern.

E.4.7 Data nature and appropriateness

There were many data sources used in the Internal Model. For example:

- Balance sheet data
- Detailed asset data
- Best estimate reserves and reserving triangles by class of business
- Historical loss ratios by class of business
- Historical large losses by class of business
- Operational Plan
- Exposure data for catastrophe modelling
- Economic data for Economic Scenario Generator
- Operational risk loss scenario assessments

Each data item used by the Internal Model was assessed in an annual data quality assessment exercise to establish whether the data was accurate, appropriate and complete.

E.5 Non-compliance with the MCR and non-compliance with the SCR

The Company has been fully compliant with the SCR and the MCR during the reporting period.

E.6 Any other information

Nothing to report.

Appendix. Quantitative Reporting

Templates (QRTs)

| QRT Reference | QRT Name |
|----------------------|--|
| S.02.01.02 | Balance sheet |
| S.05.01.02 | Premiums, claims and expenses by line of business – Non-Life |
| S.05.02.01 | Premiums, claims and expenses by country – Non-Life |
| S.17.01.02 | Non-life technical provisions |
| S.19.01.21 | Non-life insurance claims information (accident year) |
| S.23.01.01 | Own funds |
| S.25.03.21 | Solvency Capital Requirement – for undertakings on full internal models |
| S.28.01.01 | Minimum Capital Requirement – only life or only non-life insurance or reinsurance activity |

There is nothing to report for the Company for QRT S.05.01.02 (Premiums, claims and expenses by line of business – Life).

There is nothing to report for the Company for QRT S.05.02.02 (Premiums, claims and expenses by country – Life).

There is nothing to report for the Company for QRT S.12.01.02 (Life and Health SLT Technical Provisions)

There is nothing to report for the Company for QRT S.19.01.21 (Underwriting Year).

There is nothing to report for the Company for QRT S.22.01.21 (Impact of long term guarantees and transitional measures).

All monetary amounts are shown in thousands of DKK (000's) in all QRTs.

FORSIKRINGSSELSKABET PRIVATSIKRING A/S

Solvency and Financial Condition Report

Disclosures

31 December

2020

(Monetary amounts in DKK thousands)

General information

| | |
|---|---|
| Undertaking name | FORSIKRINGSELSKABET PRIVATSIKRING A/S |
| Undertaking identification code | 213800EKN2D9ACM88N66 |
| Type of code of undertaking | LEI |
| Type of undertaking | Non-life undertakings |
| Country of authorisation | DK |
| Language of reporting | en |
| Reporting reference date | 31 december 2020 |
| Currency used for reporting | DKK |
| Accounting standards | Local GAAP |
| Method of Calculation of the SCR | Full internal model |
| Matching adjustment | No use of matching adjustment |
| Volatility adjustment | No use of volatility adjustment |
| Transitional measure on the risk-free interest rate | No use of transitional measure on the risk-free interest rate |
| Transitional measure on technical provisions | No use of transitional measure on technical provisions |

List of reported templates

- S.02.01.02 - Balance sheet
- S.05.01.02 - Premiums, claims and expenses by line of business
- S.05.02.01 - Premiums, claims and expenses by country
- S.17.01.02 - Non-Life Technical Provisions
- S.19.01.21 - Non-Life insurance claims
- S.23.01.01 - Own Funds
- S.25.03.21 - Solvency Capital Requirement - for undertakings on Full Internal Models
- S.25.03.21 - Solvency Capital Requirement - for undertakings on Full Internal Models
- S.28.01.01 - Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

S.02.01.02

Balance sheet

| | | Solvency II value |
|---------------|--|----------------------|
| | | C0010 |
| Assets | | |
| R0030 | Intangible assets | |
| R0040 | Deferred tax assets | |
| R0050 | Pension benefit surplus | |
| R0060 | Property, plant & equipment held for own use | |
| R0070 | Investments (other than assets held for index-linked and unit-linked contracts) | 1,602,527 |
| R0080 | <i>Property (other than for own use)</i> | |
| R0090 | <i>Holdings in related undertakings, including participations</i> | |
| R0100 | <i>Equities</i> | 0 |
| R0110 | <i>Equities - listed</i> | |
| R0120 | <i>Equities - unlisted</i> | |
| R0130 | <i>Bonds</i> | 1,599,911 |
| R0140 | <i>Government Bonds</i> | 80,096 |
| R0150 | <i>Corporate Bonds</i> | 1,519,815 |
| R0160 | <i>Structured notes</i> | |
| R0170 | <i>Collateralised securities</i> | |
| R0180 | <i>Collective Investments Undertakings</i> | 2,616 |
| R0190 | <i>Derivatives</i> | |
| R0200 | <i>Deposits other than cash equivalents</i> | |
| R0210 | <i>Other investments</i> | |
| R0220 | Assets held for index-linked and unit-linked contracts | |
| R0230 | Loans and mortgages | 0 |
| R0240 | <i>Loans on policies</i> | |
| R0250 | <i>Loans and mortgages to individuals</i> | |
| R0260 | <i>Other loans and mortgages</i> | |
| R0270 | Reinsurance recoverables from: | -3,278 |
| R0280 | <i>Non-life and health similar to non-life</i> | -3,278 |
| R0290 | <i>Non-life excluding health</i> | -2,991 |
| R0300 | <i>Health similar to non-life</i> | -286 |
| R0310 | <i>Life and health similar to life, excluding index-linked and unit-linked</i> | 0 |
| R0320 | <i>Health similar to life</i> | 0 |
| R0330 | <i>Life excluding health and index-linked and unit-linked</i> | 0 |
| R0340 | <i>Life index-linked and unit-linked</i> | 0 |
| R0350 | Deposits to cedants | |
| R0360 | Insurance and intermediaries receivables | 1,876 |
| R0370 | Reinsurance receivables | 943 |
| R0380 | Receivables (trade, not insurance) | 702 |
| R0390 | Own shares (held directly) | |
| R0400 | Amounts due in respect of own fund items or initial fund called up but not yet paid in | 0 |
| R0410 | Cash and cash equivalents | 14,350 |
| R0420 | Any other assets, not elsewhere shown | |
| R0500 | Total assets | 1,617,120 |

S.02.01.02

Balance sheet

| | | Solvency II value |
|-------|--|----------------------|
| | | C0010 |
| | Liabilities | |
| R0510 | Technical provisions - non-life | 302,301 |
| R0520 | <i>Technical provisions - non-life (excluding health)</i> | 125,682 |
| R0530 | <i>TP calculated as a whole</i> | 0 |
| R0540 | <i>Best Estimate</i> | 97,058 |
| R0550 | <i>Risk margin</i> | 28,624 |
| R0560 | <i>Technical provisions - health (similar to non-life)</i> | 176,619 |
| R0570 | <i>TP calculated as a whole</i> | 0 |
| R0580 | <i>Best Estimate</i> | 164,147 |
| R0590 | <i>Risk margin</i> | 12,472 |
| R0600 | Technical provisions - life (excluding index-linked and unit-linked) | 0 |
| R0610 | <i>Technical provisions - health (similar to life)</i> | 0 |
| R0620 | <i>TP calculated as a whole</i> | 0 |
| R0630 | <i>Best Estimate</i> | 0 |
| R0640 | <i>Risk margin</i> | 0 |
| R0650 | <i>Technical provisions - life (excluding health and index-linked and unit-linked)</i> | 0 |
| R0660 | <i>TP calculated as a whole</i> | 0 |
| R0670 | <i>Best Estimate</i> | 0 |
| R0680 | <i>Risk margin</i> | 0 |
| R0690 | Technical provisions - index-linked and unit-linked | 0 |
| R0700 | <i>TP calculated as a whole</i> | 0 |
| R0710 | <i>Best Estimate</i> | 0 |
| R0720 | <i>Risk margin</i> | 0 |
| R0740 | Contingent liabilities | 0 |
| R0750 | Provisions other than technical provisions | 119 |
| R0760 | Pension benefit obligations | |
| R0770 | Deposits from reinsurers | 192 |
| R0780 | Deferred tax liabilities | 21,263 |
| R0790 | Derivatives | |
| R0800 | Debts owed to credit institutions | |
| R0810 | Financial liabilities other than debts owed to credit institutions | |
| R0820 | Insurance & intermediaries payables | 1,951 |
| R0830 | Reinsurance payables | |
| R0840 | Payables (trade, not insurance) | 590,786 |
| R0850 | Subordinated liabilities | 0 |
| R0860 | <i>Subordinated liabilities not in BOF</i> | |
| R0870 | <i>Subordinated liabilities in BOF</i> | 0 |
| R0880 | Any other liabilities, not elsewhere shown | 41,865 |
| R0900 | Total liabilities | 958,477 |
| R1000 | Excess of assets over liabilities | 658,643 |

S.17.01.02

Non-Life Technical Provisions

| | | Direct business and accepted proportional reinsurance | | | | | | | | | | | Accepted non-proportional reinsurance | | | | Total Non-Life obligation | |
|--|---|---|-----------------------------|---------------------------------|-----------------------------------|-----------------------|--|---|-----------------------------|---------------------------------|--------------------------|------------|---------------------------------------|-------------------------------------|---------------------------------------|---|---------------------------|---------------------------------------|
| | | Medical expense insurance | Income protection insurance | Workers' compensation insurance | Motor vehicle liability insurance | Other motor insurance | Marine, aviation and transport insurance | Fire and other damage to property insurance | General liability insurance | Credit and suretyship insurance | Legal expenses insurance | Assistance | Miscellaneous financial loss | Non-proportional health reinsurance | Non-proportional casualty reinsurance | Non-proportional marine, aviation and transport reinsurance | | Non-proportional property reinsurance |
| | | C0020 | C0030 | C0040 | C0050 | C0060 | C0070 | C0080 | C0090 | C0100 | C0110 | C0120 | C0130 | C0140 | C0150 | C0160 | C0170 | C0180 |
| R0010 | Technical provisions calculated as a whole | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| R0050 | Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Technical provisions calculated as a sum of BE and RM Best estimate | | | | | | | | | | | | | | | | | | |
| Premium provisions | | | | | | | | | | | | | | | | | | |
| R0060 | Gross | 23 | -28,722 | 26 | -6,805 | -29,581 | -224 | -62,178 | 11,927 | 0 | 0 | -4,116 | -880 | 0 | 0 | 0 | 0 | -120,530 |
| R0140 | Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default | 0 | -286 | 0 | -778 | 0 | 0 | -8,437 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | -9,501 |
| R0150 | Net Best Estimate of Premium Provisions | 23 | -28,436 | 26 | -6,027 | -29,581 | -224 | -53,741 | 11,927 | 0 | 0 | -4,116 | -880 | 0 | 0 | 0 | 0 | -111,029 |
| Claims provisions | | | | | | | | | | | | | | | | | | |
| R0160 | Gross | 58 | 184,823 | 7,938 | 70,102 | 7,005 | 134 | 76,358 | 7,190 | 0 | 0 | 15,447 | 12,680 | 0 | 0 | 0 | 0 | 381,735 |
| R0240 | Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default | 0 | 0 | 0 | 0 | 0 | 0 | 1,580 | 0 | 0 | 0 | 4,458 | 185 | 0 | 0 | 0 | 0 | 6,224 |
| R0250 | Net Best Estimate of Claims Provisions | 58 | 184,823 | 7,938 | 70,102 | 7,005 | 134 | 74,778 | 7,190 | 0 | 0 | 10,988 | 12,495 | 0 | 0 | 0 | 0 | 375,512 |
| R0260 | Total best estimate - gross | 82 | 156,101 | 7,964 | 63,297 | -22,577 | -90 | 14,179 | 19,118 | 0 | 0 | 11,331 | 11,800 | 0 | 0 | 0 | 0 | 261,205 |
| R0270 | Total best estimate - net | 82 | 156,387 | 7,965 | 64,075 | -22,577 | -90 | 21,037 | 19,118 | 0 | 0 | 6,873 | 11,615 | 0 | 0 | 0 | 0 | 264,483 |
| R0280 | Risk margin | 3 | 12,137 | 332 | 4,547 | 7,452 | 27 | 13,702 | 767 | 0 | 0 | 1,581 | 547 | 0 | 0 | 0 | 0 | 41,096 |
| Amount of the transitional on Technical Provisions | | | | | | | | | | | | | | | | | | |
| R0290 | Technical Provisions calculated as a whole | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| R0300 | Best estimate | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| R0310 | Risk margin | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| R0320 | Technical provisions - total | 85 | 168,238 | 8,296 | 67,844 | -15,125 | -63 | 27,881 | 19,885 | 0 | 0 | 12,912 | 12,347 | 0 | 0 | 0 | 0 | 302,301 |
| R0330 | Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total | 0 | -286 | 0 | -778 | 0 | 0 | -6,857 | 0 | 0 | 0 | 4,458 | 185 | 0 | 0 | 0 | 0 | -3,278 |
| R0340 | Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total | 85 | 168,524 | 8,296 | 68,622 | -15,125 | -63 | 34,739 | 19,885 | 0 | 0 | 8,454 | 12,162 | 0 | 0 | 0 | 0 | 305,578 |

S.19.01.21

Non-Life insurance claims

Total Non-life business

Z0020 Accident year / underwriting year

| Gross Claims Paid (non-cumulative) | | | | | | | | | | | | | | |
|------------------------------------|------------------|---------|--------|--------|--------|-------|-------|-------|-------|-------|-----------------|---------------------------|---------|-----------|
| (absolute amount) | | | | | | | | | | | | | | |
| Year | C0010 | C0020 | C0030 | C0040 | C0050 | C0060 | C0070 | C0080 | C0090 | C0100 | C0110 | C0170 | C0180 | |
| | Development year | | | | | | | | | | In Current year | Sum of years (cumulative) | | |
| | 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 & + | | | |
| R0100 | Prior | | | | | | | | | | | 2,024 | 2,024 | 2,024 |
| R0160 | 2011 | 182,238 | 73,943 | 24,970 | 10,164 | 6,758 | 4,347 | 477 | 544 | 325 | 304 | | 304 | 304,069 |
| R0170 | 2012 | 179,367 | 72,871 | 22,083 | 11,038 | 3,488 | 2,413 | 1,666 | 304 | 3,281 | | 3,281 | 296,511 | |
| R0180 | 2013 | 176,902 | 87,867 | 22,536 | 6,431 | 4,359 | 4,809 | 416 | 662 | | | 662 | 303,983 | |
| R0190 | 2014 | 179,414 | 76,944 | 26,024 | 11,374 | 6,608 | 4,901 | 2,786 | | | | 2,786 | 308,052 | |
| R0200 | 2015 | 206,696 | 87,010 | 24,501 | 10,485 | 4,467 | 1,275 | | | | | 1,275 | 334,433 | |
| R0210 | 2016 | 219,022 | 81,715 | 27,413 | 14,352 | 6,981 | | | | | | 6,981 | 349,482 | |
| R0220 | 2017 | 232,597 | 86,331 | 27,936 | 16,203 | | | | | | | 16,203 | 363,068 | |
| R0230 | 2018 | 250,258 | 81,293 | 34,128 | | | | | | | | 34,128 | 365,679 | |
| R0240 | 2019 | 267,114 | 86,425 | | | | | | | | | 86,425 | 353,539 | |
| R0250 | 2020 | 243,065 | | | | | | | | | | 243,065 | 243,065 | |
| R0260 | | | | | | | | | | | | Total | 397,135 | 3,223,906 |

| Gross Undiscounted Best Estimate Claims Provisions | | | | | | | | | | | | | | |
|--|------------------|---------|--------|--------|--------|--------|--------|-------|-------|-------|--------|----------------------------|-------|---------|
| (absolute amount) | | | | | | | | | | | | | | |
| Year | C0200 | C0210 | C0220 | C0230 | C0240 | C0250 | C0260 | C0270 | C0280 | C0290 | C0300 | C0360 | | |
| | Development year | | | | | | | | | | | Year end (discounted data) | | |
| | 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 & + | | | |
| R0100 | Prior | | | | | | | | | | | | 2,918 | |
| R0160 | 2011 | 0 | 0 | 0 | 0 | 0 | 11,497 | 9,544 | 1,368 | 1,916 | 501 | 2,945 | | |
| R0170 | 2012 | 0 | 0 | 0 | 0 | 14,301 | 9,877 | 4,247 | 3,802 | 2,196 | | 506 | | |
| R0180 | 2013 | 0 | 0 | 0 | 20,526 | 12,143 | 8,874 | 7,227 | 5,923 | | | 2,211 | | |
| R0190 | 2014 | 0 | 0 | 35,400 | 18,547 | 16,095 | 9,522 | 8,075 | | | | 5,973 | | |
| R0200 | 2015 | 0 | 67,757 | 36,353 | 20,829 | 11,874 | 7,405 | | | | | 8,147 | | |
| R0210 | 2016 | 150,134 | 65,986 | 36,670 | 19,412 | 10,263 | | | | | | 7,468 | | |
| R0220 | 2017 | 163,371 | 75,048 | 42,591 | 16,419 | | | | | | | 10,350 | | |
| R0230 | 2018 | 185,602 | 88,737 | 41,364 | | | | | | | | 16,537 | | |
| R0240 | 2019 | 189,458 | 80,424 | | | | | | | | | 41,632 | | |
| R0250 | 2020 | 204,092 | | | | | | | | | | 80,905 | | |
| R0260 | | | | | | | | | | | | | Total | 381,735 |

S.25.03.21

Solvency Capital Requirement - for undertakings on Full Internal Models

| | Unique number of component | Component description | Calculation of the Solvency Capital Requirement |
|----|----------------------------|---|---|
| | C0010 | C0020 | C0030 |
| 1 | 501EA | Underwriting Risk - Expectation | -96,967 |
| 2 | 501EB | Underwriting Risk - Movement from Expectation | 173,591 |
| 3 | 50301A | Catastrophe Risk - Expectation | 9,809 |
| 4 | 50301B | Catastrophe Risk - Movement from Expectation | 55,119 |
| 5 | 502AA | Reserving Risk - Expectation | 1,046 |
| 6 | 502AB | Reserving Risk - Movement from Expectation | 103,171 |
| 7 | 10A | Market Risk - Expectation | 9,862 |
| 8 | 10B | Market Risk - Movement from Expectation | 8,828 |
| 9 | 20301A | Credit Risk - Expectation | 1,710 |
| 10 | 20301B | Credit Risk - Movement from Expectation | 4,466 |
| 11 | 70101A | Operational Risk - Expectation | 0 |
| 12 | 70101B | Operational Risk - Movement from Expectation | 25,142 |
| 13 | 801A | Other Risks - Expectation | 17,381 |
| 14 | 801B | Other Risks - Movement from Expectation | -17,381 |
| 15 | 80301I | Loss absorbing Capacity of Deferred Tax | 0 |

S.25.03.21

Solvency Capital Requirement - for undertakings on Full Internal Models

Calculation of Solvency Capital Requirement

| | C0100 |
|---|----------------|
| R0110 Total undiversified components | 295,779 |
| R0060 Diversification | -97,072 |
| R0160 Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC | |
| R0200 Solvency capital requirement excluding capital add-on | 198,707 |
| R0210 Capital add-ons already set | |
| R0220 Solvency capital requirement | 198,707 |

Other information on SCR

| | |
|--|---|
| R0300 Amount/estimate of the overall loss-absorbing capacity of technical provisions | |
| R0310 Amount/estimate of the overall loss-absorbing capacity of deferred taxes | 0 |
| R0410 Total amount of Notional Solvency Capital Requirements for remaining part | |
| R0420 Total amount of Notional Solvency Capital Requirement for ring fenced funds | |
| R0430 Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios | |
| R0440 Diversification effects due to RFF nSCR aggregation for article 304 | |

Approach to tax rate

| | C0109 |
|--|-------|
| R0590 Approach based on average tax rate | No |

Calculation of loss absorbing capacity of deferred taxes

| | LAC DT |
|---|--------|
| | C0130 |
| R0640 Amount/estimate of LAC DT | 0 |
| R0650 Amount/estimate of LAC DT justified by reversion of deferred tax liabilities | |
| R0660 Amount/estimate of LAC DT justified by reference to probable future taxable economic profit | |
| R0670 Amount/estimate of AC DT justified by carry back, current year | |
| R0680 Amount/estimate of LAC DT justified by carry back, future years | |
| R0690 Amount/estimate of Maximum LAC DT | |

S.28.01.01

Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

Linear formula component for non-life insurance and reinsurance obligations

R0010 MCR_{NL} Result

C0010

| |
|---------|
| 101,086 |
|---------|

| | Net (of reinsurance/SPV) best estimate and TP calculated as a whole | Net (of reinsurance) written premiums in the last 12 months |
|--|---|---|
| | C0020 | C0030 |
| | 82 | 278 |
| | 156,387 | 158,445 |
| | 7,965 | 3,864 |
| | 64,075 | 46,429 |
| | 0 | 211,244 |
| | 0 | 639 |
| | 21,037 | 312,930 |
| | 19,118 | 1,594 |
| | 0 | |
| | 0 | |
| | 6,873 | 75,365 |
| | 11,615 | 22,619 |
| | 0 | |
| | 0 | |
| | 0 | |
| | 0 | |

- R0020 Medical expense insurance and proportional reinsurance
- R0030 Income protection insurance and proportional reinsurance
- R0040 Workers' compensation insurance and proportional reinsurance
- R0050 Motor vehicle liability insurance and proportional reinsurance
- R0060 Other motor insurance and proportional reinsurance
- R0070 Marine, aviation and transport insurance and proportional reinsurance
- R0080 Fire and other damage to property insurance and proportional reinsurance
- R0090 General liability insurance and proportional reinsurance
- R0100 Credit and suretyship insurance and proportional reinsurance
- R0110 Legal expenses insurance and proportional reinsurance
- R0120 Assistance and proportional reinsurance
- R0130 Miscellaneous financial loss insurance and proportional reinsurance
- R0140 Non-proportional health reinsurance
- R0150 Non-proportional casualty reinsurance
- R0160 Non-proportional marine, aviation and transport reinsurance
- R0170 Non-proportional property reinsurance

Linear formula component for life insurance and reinsurance obligations

R0200 MCR_L Result

C0040

| |
|---|
| 0 |
|---|

| | Net (of reinsurance/SPV) best estimate and TP calculated as a whole | Net (of reinsurance/SPV) total capital at risk |
|--|---|--|
| | C0050 | C0060 |
| | | |
| | | |
| | | |
| | | |

- R0210 Obligations with profit participation - guaranteed benefits
- R0220 Obligations with profit participation - future discretionary benefits
- R0230 Index-linked and unit-linked insurance obligations
- R0240 Other life (re)insurance and health (re)insurance obligations
- R0250 Total capital at risk for all life (re)insurance obligations

Overall MCR calculation

- R0300 Linear MCR
- R0310 SCR
- R0320 MCR cap
- R0330 MCR floor
- R0340 Combined MCR
- R0350 Absolute floor of the MCR
- R0400 Minimum Capital Requirement

C0070

| |
|---------|
| 101,086 |
| 198,707 |
| 89,418 |
| 49,677 |
| 89,418 |
| 18,617 |
| 89,418 |